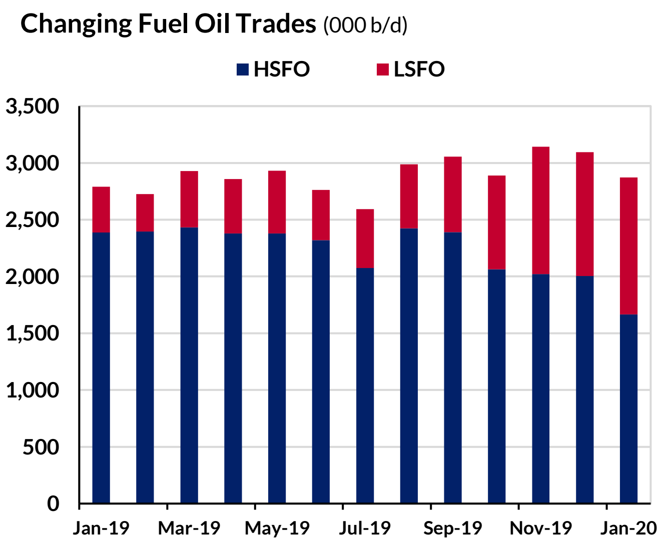
Could some VLSFO fuels be banned?

Weekly Tanker Market Report

The run up to the implementation of the new IMO rules on marine fuels from 1st January 2020 had owners and charterers analysing the various fuelling options. From late-November there were some delays in receiving the correct bunkers, but overall, considering the scale of what was to be done within the shipping world, the switch seems to have gone smoothly. As with all things that are new, there needs to be some time to bed in and to acclimatise to new rules and regulations. But overall, bunker suppliers have been able to supply on-spec fuels. However, the switch over seems to have brought with it a new and somewhat ominous complication, that of the potential for some blended low sulphur fuels to produce more black carbon than the fuels they replaced. Black carbon emissions are a short-lived pollutant that absorbs sunlight and traps heat in the atmosphere. While it stays in the atmosphere for only a few days or weeks, its impact is that it traps 3200-times more heat in the atmosphere than carbon dioxide, measured over a 20-year period. When black carbon settles in the Arctic, it reduces the reflectiveness of the snow and ice and generates heat, which accelerates melting. This makes the Arctic – which according to reports is already warming twice as fast as the rest of the world- particularly sensitive to these emissions.

Black carbon is material produced and emitted as a solid particulate matter from the incomplete combustion of carbon-based fuels. HFO typically contains approximately 60% aromatics, which contain a higher proportion of carbon than other hydrocarbon types and they have a tendency to smoke when burnt. The recent media interest in the performance of the new VLSFO fuels has pointed out that these fuels are responsible for increased levels of black carbon pollution due to their higher aromatic content. However, whilst it is possible that certain VLSFOs may have elevated aromatic content, it is expected that for VLSFO fuels produced by blending, these will have lower aromatic content than a typical HFO due to the major blended component (distillate) having typically half the aromatic content. Therefore, it is difficult to reason that all VLSFOs, especially those produced from various blends, produce more black carbon due to their aromatic content.



However, there is also the added complication that emissions of black carbon are also related to the engine type and its operating load. Slow speed two-stroke engines, used in larger oceangoing vessels are considered to have lower black carbon emission factors than higher speed four stroke engines. For larger engines, increasing engine load reduces black carbon emissions, whereas for smaller engines the reverse is true. Vessels that have scrubbers installed provide an approximate 30% reduction in black carbon emissions. A study conducted by Finland and Germany and submitted to the IMO found the new VLSFO used by ships contained high levels of aromatic compounds, causing a surge in black carbon emissions. The group have submitted a new proposal to the sub-committee on pollution and prevention response that will meet in late-February in London. They are demanding a prohibition of VLSFO blends that lead to increases in black carbon emissions. They want the IMO to encourage relevant stakeholders to observe a voluntary prohibition on the use of any marine fuel whose aromatic content is likely to lead to black carbon emissions greater than those commonly associated with distillate fuels until a ban comes into effect. The move to lower emission fuels is considered a positive direction within the shipping sector. However, there still seems to be much to be learned with how these fuels are produced and their potential impact on the environment.

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Crude Oil

Middle East

VLCC Charterers controlled the flow of enquiry this week giving Owners no opportunity to gain any momentum. Availability remains healthy and with Charterers starting to focus more on the latter part of the 1st decade window it should be easy enough for Charterers to secure last done levels which remain at 270,000mt x WS 42.5 for Eastern destinations. Voyages West remain rare, but levels would be expected to be in the region of 280,000mt x WS 25 to the US Gulf. As in other areas a quiet week where appetite to get West dominates; rates suffer as a consequence falling to 140,000mt x WS 35 for UKC/Med. A slight late week rally for AG/East saw a small increment to 130,000mt x WS 80 due to some Owners asking for slight premia for China discharge. Aframax Owners in the AG have played their cards well over the course of a week that has delivered increased inquiry levels. Rates have subsequently pushed up to 80,000mt x WS 120 for AG/East off natural dates. Owners can rest up as we close the week feeling slightly more positive heading into week 9.

West Africa

Owners have done well to maintain rates despite modest demand this week. Enough Suezmax vessels have been picked off for rates to remain solid going into next week with 130,000mt x WS 77.5 achievable for Europe and around WS 90 for Eastern destinations. Similarly, VLCC interest kept to a minimum and Owners remain handcuffed against how the AG market fares.

As it stands now Charterers can readily secure last done levels of 260,000mt x WS 46 to the East with India remaining in the low \$3m's for West Coast.

Mediterranean

It's been one of those weeks that has passed with little to change the status quo that has been established in the Med and Black Sea. Owners began the week with subdued optimism, however after a slow start this optimism was quickly dampened. Rates have remained soft and are yet to move out of the W75-82.5 bracket for X-Med runs regardless of the options required. We see little to change this going into next week, only the resumption of Libya exports will see this market go anywhere but sideways to soft in the short term. For Suezmaxes, the Med continues to struggle along with Libyan outage and shows no sign of recovery until this is resolved. Rates continue to tick sideways at 130,000mt x high WS 80's for BSea to the Med and mid to high \$3m's for BSea to the Far East.

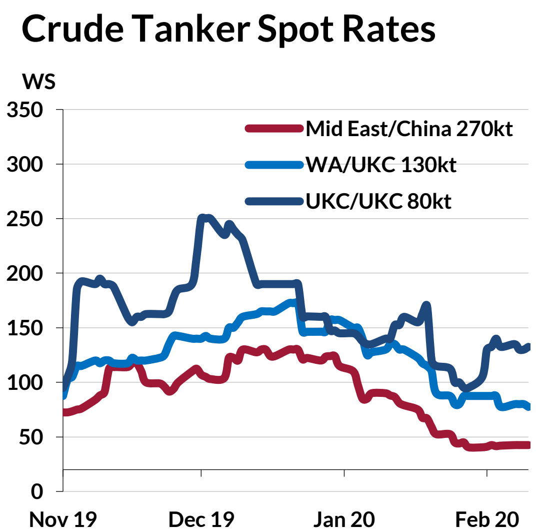
US Gulf/Latin America

A week of two halves for Owners, as it started with Owners calling the shots as weather delays held back a few ships from being workable. Once the fog had lifted, a better supply of availability brought levels down, although to still quite respectable mid WS 170's for inter U.S trade. An abundance of VLCC activity from the US Gulf would naturally be a trigger for Owners to push levels on, but with regular fixing and failing throughout the week, rates have only moved sideways with current levels around US\$5.5m for a voyage US Gulf to Singapore.

North Sea

A week of testing has revealed several things below the surface in the Northern market. A number of Owners have preferred not to weather the storm and set off for the more lucrative American markets. Whether or not these continue to hold, high earnings remain to be seen, but the exodus has been minimal and in reality, hasn't affected vessel availability for the North Sea, with recent fixtures at 80,000mt x WS 125levels.

March Urals are now coming into play, but a noticeable mild winter hasn't helped those with ice vessels, who would now usually be reaping the benefits of their more specialised ships, which leaves the Baltic/Cont rates trading at 80,000mt x WS 105 levels. In the near-term it seems as if the local markets could be put under further pressure judging from recent activity, but March could prove to have some tricks up it's sleeve yet. North Sea VLCC activity keeps to a minimum with levels expected to remain rangebound at around US$6m for South Korea/China discharge.



*All rates displayed in graphs in terms of WS100 at the time

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Clean Products

East

A busy week for the MRs, where the tonnage list got tighter and fresh stems were flowing into the market. Rates, having initially seen a positive correction, maybe got a little ahead of themselves and after a mid-week rest bite finished the week with a little push. TC12 fixed at 35 x WS 152.5 is a positive step for Owners and, with EAFR at 35 x WS165 levels, the sentiment is looking favourable. Short hauls have also taken a step up – US$275k on subs for Kuwait / Jebel Ali is certainly giving healthy returns. With ships continuing to be chipped away, this positivity should be picked up come Monday.

The LR1s followed a similar suit to the MRs: a busy start that saw positive correction. However, the correction seen has been repeated as Owners struggle to achieve greater than last done. TC5 sits at WS115 and stems into UKC at US$1.75m. Activity has been good and with the expected push to be seen on the LR2s next week, Owners will be trying to take rates forward. After a period of quietness on the LR2s the taps have started to open and cargoes are coming into the market. The front end is tight and, although a few rates done at less than what Owners where hoping for – next week should see rates tested- UKC at US$2.3-2.4m and TC1 at WS 107.5. A positive outlook for Owners heading into the weekend.

Mediterranean

Handy - For the majority of the week Owners were able to find stability in this market, with a consistent level of cargoes (albeit mainly East Med / BSea), allowing them to consistently trade at rates around the 190 mark for X-Med stems. Midweek saw the East Med tonnage list begin to tighten and North bound Turkish Straits delays heightened Owners ideas ex BSea. WS 195 was the new East Med rate, with WS 210 achievable ex BSea. West Med has been a similar story to previous weeks, with sluggish cargo enquiry and a build-up of tonnage allowing Charterers the ability to squeeze rates down. At the time of writing, WS 190 is the going rate ex West, with a handful more points available for an East Med load. Come Monday, Owners will be looking to build on the slight momentum they saw towards the back end of this week; however, with laycans already stretching towards end first decade ex BSea, expect fixing window candidates to be in abundance.

MR - Finally to the MRs here in the Mediterranean, where a scattering of cargoes has kept tonnage moving along with no rhythm of its own, and the UKC keeping rates moving. East runs still continue to be on the thin side, but thankfully for Owners, Skikda continues to offer employment with a handful of stems being covered. Moving into next week, we are similarly stuck on this abnormally low rates ex UKC and expect a difference in opinions to slow fixing up at the start of next week.

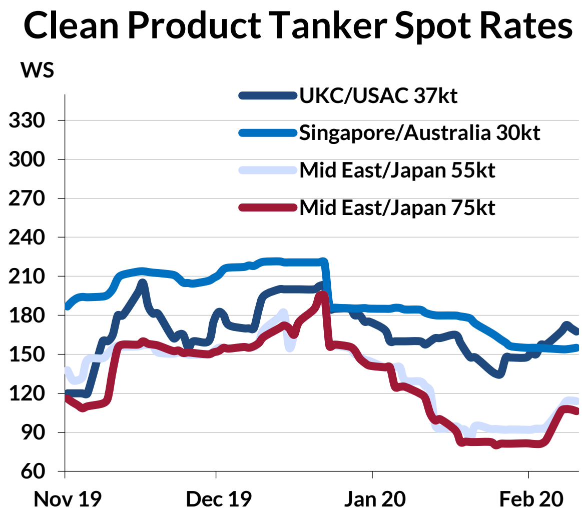
UK Continent

MR - A rather passive week has passed here for the MRs in the Continent, where a slender tonnage list has mirrored a slender cargo flow. Despite slow levels of enquiry heading to the WAF, which has been a key driver recently for this sector, we start to see glimmers of the TA arb opening partnered with some fresh demand to South Africa which has kept tonnage turnover. At the midpoint of the week opportunities to push rates higher were available. A slow Thursday knocked the wind out of Owners sails though as we see 37 x WS 165 being achieved for TC2 and then a 37 x WS 147.5 for a last cargo palms vessel, which leaves this sector rather confused to where we fix next.

Charterers will be bullish moving into Monday, with Owners looking to make this number just a bump in the road.

Handy - All in all, another positive week has passed for Handies, plying their trade up in the North. The weather continues to force delays, which has meant there has been a real lack of candidates for Charterers for certain fixing dates. Owners with contract commitments continuously chop and change their fleet due to late runners, as they try to meet cargo requirements. The highest paid ex Baltic this week was 30 x WS 230 but rates now close the week at around 30 x WS 220-225 and 30 x WS 210-215 for X-UKC.

Flexi - Week 8 has been a quiet one for the Flexi market, with activity being kept behind closed doors and leaving little to report. The UKC Handy market on the other hand has had a positive week overall, which should leave Flexi Owners in high spirits as we near the weekend. Next done is likely to fall in line with the Handies and therefore today's call is at 22 x WS 275-280 for X-UKC.



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Dirty Products

Handy

Last week's forecast of the North seeing a resurgence in firming sentiment came to fruition as tonnage tightened to a point where West Med ballasters are jumping at taking opportunity for employment. With WS 240 on subjects early on in the week, only a lack of tonnage prevented the further increases in rates as Charterers simply could not find local tonnage to match stems. Units have also been fixed or on subs to leave the region, so expect Owners with firm units to be looking for more in early trading next week.

With enquiry in the Med in recent weeks slowing, tonnage has gradually built to a point where West and East Med have been equally well stocked. With just one Black Sea cargo tempting Owners early in the week, all Charterers had to do was to sit back and wait to see which of the 10+ units would be on subs. As a result, new benchmark was set and WS 210 saw a drop of some 15 points. Lower levels didn't turn the cargo taps due to multiple factors (further sanctions being introduced this week; Libya is still on hold and a lengthy tonnage list). There is little on the horizon to stem the drop-in rates.

MR

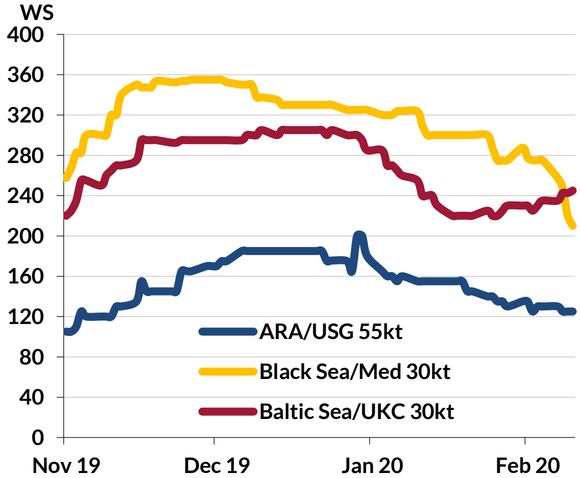
Limited tonnage being pushed in the North has been the reason for very little activity in the North this week. One unit being pushed on natural dates has failed to seek out a cargo; however, should this one unit go early next week, tonnage replenishment is looking thin and once again ballasters are the only viable option here.

Activity in the Med has also been all but non-existent but this was largely due to the lack of firm enquiry and not tonnage availability. Just two units have seen activity - one soaking up a handy stem to keep idle days to a minimum. Going into next week, all that is likely to be seen in the Med is further decrement as tonnage stacks up.

Panamax

Week 8 has not been the week that Owners would have been looking for as fresh enquiry from this side of the pond has been very limited. From Monday's opening, the tonnage lists were well stocked with prompt units (and more behind what was being shown). The soft sentiment is very much stuck in place as the week draws to a close - there simply has not been any enquiry to build momentum within this sector. Surrounding markets are not offering any upside either as both larger or smaller tonnage sectors have softened this week. The Panamaxes simply need an injection of enquiry in order to establish where this market sits.

Dirty Product Tanker Spot Rates



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Feb 20th	Feb 13th	Last Month*	FFA Feb/Mar
TD3C	VLCC	AG-China	**+1**	43	42	80	45
TD20	Suezmax	WAF-UKC	**-9**	78	88	132	76
TD7	Aframax	N.Sea-UKC	**+1**	133	132	153	122

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

			wk on wk change	Feb 20th	Feb 13th	Last Month*	FFA Feb/Mar
TD3C	VLCC	AG-China	**+1,250**	19,000	17,750	60,000	21,500
TD20	Suezmax	WAF-UKC	**-6,000**	22,750	28,750	54,250	47,500
TD7	Aframax	N.Sea-UKC	**+0**	40,500	40,500	54,000	31,750

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Feb 20th	Feb 13th	Last Month*	FFA Feb/Mar
TC1	LR2	AG-Japan	**+25**	106	81	99	
TC2	MR - west	UKC-USAC	**+11**	164	153	162	158
TC5	LR1	AG-Japan	**+21**	114	93	95	113
TC7	MR - east	Singapore-EC Aus	**+0**	155	155	180	169

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

			wk on wk change	Feb 20th	Feb 13th	Last Month*	FFA Feb/Mar
TC1	LR2	AG-Japan	**+9,500**	18,500	9,000	11,500	
TC2	MR - west	UKC-USAC	**+2,000**	18,500	16,500	16,000	17,250
TC5	LR1	AG-Japan	**+5,750**	14,250	8,500	6,000	14,000
TC7	MR - east	Singapore-EC Aus	**+0**	13,250	13,250	15,250	16,000

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

ClearView Bunker Price (Rotterdam VLSFO)	**+0**	461	461	508
ClearView Bunker Price (Fujairah VLSFO)	**-3**	500	503	633
ClearView Bunker Price (Singapore VLSFO)	**-2**	509	511	627
ClearView Bunker Price (Rotterdam LSMGO)	**+11**	500	489	523

GIBSON SHIPBROKERS

www.gibsons.co.uk

London
Audrey House
16-20 Ely Place
London EC1N 6SN

Hong Kong
Room 1404, 14/f,
Allied Kajima Building
No. 138 Gloucester Road
Wan Chai, Hong Kong

Singapore
8 Eu Tong Sen Street
12-89 The Central
Singapore 059818

Houston
770 South Post Oak Lane
Suite 610, Houston
TX77056 United States