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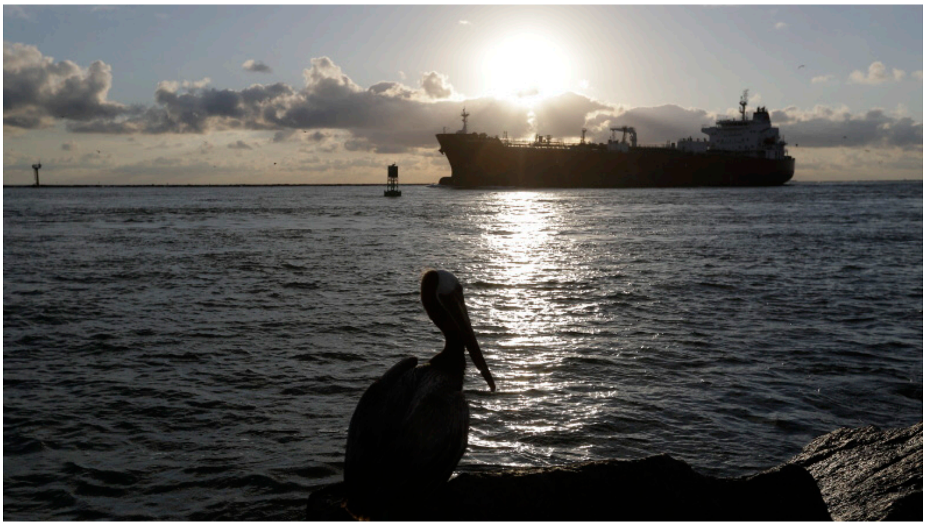
Gasoil demand linked to IMO 2020 to push oil prices higher



LIMITED SUPPLY OF compliant marine fuels could raise oil prices during the first six months of international shipping's mandatory low sulphur-transition from January 2020, according to a forecast by one energy consultant.

Rystad Energy projected that a gasoil supply shortfall of 500,000 barrels per day might emerge next year unless refineries increase their crude runs by 1.1m bpd, head of oil market research Bjornar Tonhaugen said at an annual conference held by the energy consultancy in Singapore on Tuesday.

This projection builds on a market consensus that shipowners might switch to marine gasoil, one of the ready alternatives able to comply with the International Maritime Organization's 0.5% sulphur limit on marine fuels kicking in from January 1.

Marine gasoil demand is thus far expected to grow by 1.1m bpd, accounting for the bulk of some 1.4m bpd overall incremental gasoil demand, Rystad Energy's forecast showed.

This would support expanding refinery crude runs to satisfy an otherwise large gasoil supply shortfall, potentially lifting overall crude prices in the first two quarters of 2020.

Mr Tonhaugen pointed however, to a softening demand growth for oil and liquids during the second quarter that would not bode well for the prospect in oil market recovery next year.

Rystad estimated that for the three months to June, world demand for liquids grew by just 500,000 bpd, down marginally from 600,000 bpd seen in the first quarter.

A visibly slowing global economy that is seemingly "flirting with recession", has not and would not have helped lift the oil market, Mr Tonhaugen said.

He also argued that the recent events Saudi Arabia's two key crude processing facilities, which "annihilated" most of the world's spare capacity, at least for a few days, could have resulted in "a much larger" spike in oil prices, if the situation for the oil industry was not held back by the slowing demand growth.

WHAT TO WATCH

Weak box peak season laid bare

CONTAINER volumes on the deepsea trades flattered to deceive in August, despite indications in the previous month that the industry could be in for a bountiful peak season after all.

Strong demand through July led to optimism, albeit small, among beleaguered box lines for a successful summer off the back of a poor volume showing in the first half of 2019. But, unfortunately for the lines, this never came to fruition with the official count for August backing up reports of market weakness.

The latest data published by Container Trades Statistics shows global volumes grew by a measly 0.7% in August, up from 14.2m teu to 14.3m teu.

With exports from the Far East making up about half this total, the lack of upward movement suggests the peak season for trade from the region has done little other than disappoint. Volume growth in July was recorded at 3.5%, while August volumes were down 3.2% on its total of 14.8m teu.

The fate of spot freight rates and reports from within the market suggest that volume growth remained at a slow ebb through September too, a scenario that prompted some industry commentators to dismiss 2019's peak season altogether.

Another month of soft volume growth will also do little to improve the overall growth figure for 2019, which through to the August stood at 1.2%. In 2018, global box volume growth was recorded at 3.4%.

In 2018, volumes were buoyed by flourishing transpacific trade whether a consequence of cargo frontloading ahead of tariffs or the US economy driving volumes westbound, but, and perhaps to be expected, growth has slowed markedly.

The transpacific peak season proved to be a damp squib this year, with demand slowing to such an ebb that carriers were forced to pull back on capacity.

CTS data shows that westbound headhaul volumes grew 1.3% in August, while the CTS price index for the route fell back to 82 points from 83 points in July with carriers unable to adjust capacity sufficiently to prevent rates weakening.

Meanwhile, year-to-date box numbers up until the end of August remained pretty much on par with 2018 with growth at a low 0.1% and volumes at 112.8m teu.

Last year, the strength of the transpacific trade helped offset a fundamentally weak Asia-Europe showing. In 2019, the roles have been reversed with the latter, at least in terms of volumes, providing carriers with some much-needed respite. Although volume growth continued to slow in August to more moderate levels, rising 2% over the past year, the year-to-date total come the end of the month was still tracking 4.6% above 2018.

Despite relatively healthy volume growth on the Asia-Europe trade carriers have still been unable to translate this to rates, which have continued to disappoint.

However, the CTS price index for the Asia-Europe route did climb by two points to 58 in August, suggesting the blanked sailings programme implemented by carriers throughout the month had its desired effect.

Elsewhere, CTS data showed transatlantic volume continuing at a relatively healthy level, rising by 4.1% and 3.1% in August over last year eastbound and westbound, respectively.

The container market's attention now turns to the post-China Golden Week period, marking the end of the peak season and the traditional market slowdown.

However, carriers looking for a turn in fortunes will likely be disappointed with analysts downgrading container market forecasts for the year.

Earlier this week, Drewry revealed that it had lowered its outlook for world container port throughput in 2019 due to a deterioration in the "mood music" surrounding the sector in the past three months. The analyst now expects global port throughput to rise by 2.6% in 2019, down from the previous 3% expectation.

ANALYSIS

Boxship order slowdown offers opportunity for new technologies

THE slowdown in orders for containerships due to overcapacity in the market could provide an opportunity to kick-start new ship technologies required to meet IMO 2050 objectives, according to Sea-Intelligence chief executive Alan Murphy.

Figures from Lloyd's List Intelligence put the current orderbook at 11.7% of the existing fleet capacity, and 8% of existing the existing fleet in terms of number of vessels.

"This situation presents the carriers with a golden opportunity to change the long-term dynamics of the industry on multiple fronts, at the same time," Mr Murphy wrote in Sea-Intelligence's Sunday Spotlight.

The most obvious opportunity for carriers was to reduce the supply and demand imbalance.

"With container markets having reached maturity, 2%-3% demand growth is the new normal," Mr Murphy said. "Multiple years of low capacity injection would allow demand to catch up to supply."

He warned that oversupply had not prevented a rash of overordering by carriers in the past, but conceded that the consolidation of the container shipping sector, that had seen 20 global carriers reduced to just nine, could "move the needle" at a global scale of ordering.

"Restraint by just six to eight of these carriers could ensure a long-term strengthening of fundamentals," he said.

But falling order levels could also provide an opportunity for technological advancement, he added.

"It is becoming increasingly clear that the IMO 2050 low-carbon goals will have to be taken seriously," Mr Murphy said. "It is also clear that current technology is not sufficient to meet these goals."

A low orderbook, combined with structural overcapacity, therefore offered the industry the opportunity to hold back on new ordering and instead direct funds towards technological development over the next five years.

"By then, there would be a much stronger supply and demand balance and the case for new vessels — incorporating new technology — becomes much more compelling," Mr Murphy said.

This would serve to accelerate technology adoption towards IMO 2050 goals more rapidly than a continuation of ordering vessels with current technology. IMO 2050 aims to reduce shipping's total annual greenhouse gas emissions by at least 50% by 2050 compared with 2008, while at the same time pursuing efforts to phase them out entirely.

Mr Murphy said: "Ordering a new vessel today is basically guaranteed to lead to lower costs and lower emissions than a vessel built five years ago.

"But if that vessel is indeed ordered today, it will at the same time hang around for the next 25 years. Using this golden opportunity to restrict new orders and focus on technology — and then leverage that in newbuilding programmes in the second half of the 2020s, could indeed have a very positive impact on the long-term economic trajectory of the entire industry."

New container index shows equipment availability

CONTAINER repositioning service Container xChange has begun publishing an index of container availability to help customers make repositioning decisions.

The service, which is being offered as a free beta service, provides supply data on 20 ft and 40 ft dry containers and 40 ft high-cube containers from six major container hubs in Europe and Asia.

The CAx index allows users to check past, current and future availability of containers at each location. A figure of above 0.5 on the index indicates a surplus of equipment, while a number below 0.5 suggests a shortage.

In the coming weeks, for example, high-cube containers and 40 ft dry boxes will become scarce in Hamburg, but the supply of available 20 ft containers will increase.

As in previous weeks (CAx average 0.71), there will still be enough 20 ft containers available in Hamburg in the coming weeks. The CAx shows values greater than 0.7 by week 44, following a slight shortage in recent weeks.

The opposite is to be expected for 40 ft containers, with 40 ft high-cube containers falling from 0.63 to 0.48, and standard 40 ft containers falling from 0.77 to 0.39, indicating a shortage of equipment.

MARKETS

China-built jack-ups find work in a recovering market

ONCE stranded China-built jack-ups have found their way onto the offshore drilling marketplace.

This trend, if it lasts, may hold back the recovery of a shallow-water drilling market that is finally showing some signs of a rebound, Rystad Energy's senior analyst, Jo Friedmann has warned at an industry briefing.

Offshore drilling demand had crashed following a collapse in oil prices during the second half of 2014, leaving dozens of newbuild jack-ups that were built without back-to-back charters undelivered in Singapore and China.

By Rystad's estimate, yards in China now host about 37 "stranded" jack-ups and another 11 "not stranded" units.

Unlike their counterparts in Singapore, the Chinese rig-builders have so far resisted the increasing time pressure to offload their share of stranded jack-ups at discounts in the resale market.

Mr Friedmann noted that of late, though, some of these have gone on "bareboat charters with purchase options after one to two years".

"Most have gone to the Middle East and a couple to Mexico; this is definitely a trend that will continue," he said.

Lloyd's List also understands that as many as six jack-ups have joined the operating fleet of state-owned China Oilfield Services Ltd.

That said, it has taken these China-built jack-ups about four years to make their way into the market.

This recent development however, has dashed hopes held by some players that these jack-ups would be scrapped before the offshore drilling segment staged a recovery.

Rystad projected that if all "unstranded" and 50% of the "stranded" China-built jack-ups are included, global fleet utilisation would slip five percentage points to 73% by 2021.

This projection factors in scrapping of 61 jack-ups and delivery of 15 newbuilds from Singapore.

Rystad's data reflected a rebound of contracting activity for jack-up rigs to pre-crash levels, with notable increases seen in contracted rig count in China and Southeast Asia during recent months.

The Middle East stands out as one region in which contracted jack-up fleet has remained comparatively stable throughout this downturn.

On a year-on-year basis, rig rates for new fixtures have increased between 23% and 70% as fleet utilisation jumped 3% to 40% across three jack-up asset classes during the first quarter.

IN OTHER NEWS

Shipping confidence dips further as trade tensions intensify

SHIPPING confidence has dropped further to a two-and-a-half year low due to increased trade tensions, according to the latest survey by adviser and accountant to the industry BDO, formely Moore Stephens.

Confidence has fallen to 5.8 out of 10 in the three months to end-August, according to the survey. That compares with 6.1 recorded in the previous three months.

Broking saw the biggest slump in confidence to 5.1 from 5.7, the survey, which launched in May 2008, showed, while confidence was the highest among charterers, moving up to 7.0 from 6.2. Increased ratings were also seen for owners and managers.

UK government reveals updated plans to contend with no-deal Brexit

THE UK government has unveiled its updated preparation plans in case the country leaves the European Union without an agreement on October 31.

As a no-deal Brexit looms larger with the end of the month fast approaching and little progress made in negotiations, the UK government published yesterday a 150-page report on No-Deal Readiness, in which it claims to be well equipped to handle the impending workload and minimise disruption.

It reiterated that in a no-deal case, UK exports to the EU, and EU imports to the UK, would be subject to customs duties and customers would pay VAT on EU imports.

Ulsan ban on dangerous goods cargo continues at several terminals

THE bulk of operations at the port of Ulsan are continuing, although South Korea has banned the transport and discharge of dangerous goods cargo at several terminals there, according to Korean media reports.

Yonhap reported that the move to prohibit cargoes such as various categories of oil and gases came from the administration of Ulsan, the regional fisheries agency and the port administration.

Market sources said discharge operations are continuing, although some parts of the port may have been closed for repairs.

Fuel DNA tracking finds favour ahead of 2020

A BLOCKCHAIN-based DNA tracker for bunker loads that would provide accountability across the supply chain has been trialled successfully, according to the company behind it, BunkerTrace.

The company, a joint venture by Bloc and Forecast Technology, says a number of potential clients — including at least five large ports, three bunker suppliers and multiple ship operators — are interested in applying the technology on their bunkers to help with compliance and safety issues related to the 2020 sulphur cap.

Bunker supplier Minerva loaded 0.1% sulphur fuel that had this tracker on a Boskalis-owned dredger after crew were able to verify the presence of the tracker using a minute-long onboard test that was then saved on a blockchain-based transaction record.

Panama Canal expansion drives continuing growth at US east coast ports

EXPANSION of the Panama Canal remains a key driver of container throughput growth for US east coast ports, according to Jones Lang LaSalle.

"It's been three years since the opening of the expanded Panama Canal and teu volumes continue to grow — especially for the east coast ports," the logistics and real estate services company said in a report.

"With the rise of e-commerce and the population base, we anticipate teu volumes on the east coast to continue the upward growth trajectory."

Since the opening of the canal, east coast ports have become better equipped to handle the larger boxships with capacities up to 15,000 teu, compared with 5,000 teu ships previously.

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ADMIRALTY COURT SALE

Supreme Court, Gibraltar.

MV "SPICA"

Container ship

(Liberian Flag)

Auction Date Wednesday 30th October, 2019.

DWT:	Abt 11,804 mtons on 8.80m draft
Built:	2008 by Yangfan Group, Zhejiang, PRC
Class:	DNV-GL ✠100 A5 E Container ship SOLAS-II-2, Reg.19 IW ✠MC E AUT
IMO No:	9449699
Dimensions:	LOA 139.1m, Beam 22.6m, Depth 11.8m
Capacity:	970 TEU (252 reefer plugs)
Propulsion:	MAN B&W 8L48/60B, 12,873bhp at 500 rpm MCR
Auxiliaries:	2 x ZJMD-MAN B&W type 6L23/30H
Gear:	2 x 45mtns SWL NMF port side mounted deck cranes
Misc:	CP propeller, 2 Bow thrusters

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