Wednesday October 23, 2019

Lloyd's List
Maritime intelligence | informa

Daily Briefing
Leading maritime commerce since 1734

LEAD STORY:
Activity in tanker FFA trades soars on heated spot market

WHAT TO WATCH:
Novatek claims ice-classed LNG tankers cleared of Cosco sanctions fallout

UK to uphold Maritime Labour Convention after EU exit

OPINION:
Yard Talk | Another rough year ahead?

ANALYSIS:
US-China tariff delay does little to stabilise freight demand

MARKETS:
Top-ranked bunker suppliers boost storage off Singapore

IN OTHER NEWS:
K+N earnings improve on higher volumes

Italian regulators sign off 49% MSC stake in Messina

Sovcomflot sends two tankers to China via northern sea route

Golar Power scores second gas-to-power project in Brazil

Iran reported to be planning to build 200 ships

Carlyle Group quits joint oil export project

Navios Acquisition completes loan repayment

Vale lowers full-year iron ore sales guidance

Activity in tanker FFA trades soars on heated spot market

THE TANKER FREIGHT derivatives market has seen a spike in activity since spot rates heated up following geopolitical tensions and attacks on vessels in the Middle East amid further US sanctions.

Total traded volumes in the dirty tankers forward freight agreements market on the Baltic Exchange surged to 20,507 lots for the week ended October 14, the highest since April 2011. But the volumes have since dropped to 7,379 lots as of October 21.

That is still double the five-year average of about 3,154 lots, Baltic data shows. One lot equals 1,000 tonnes.

"Volatility in the tanker market is at a record high and for the first-time tanker FFAs have exceeded dry FFAs," the Baltic's chief executive Mark Jackson said, as there is more perceived risk in the market due to global uncertainty, such as trade sanctions.

"When the market is looking to hedge its risk, the physical market is restrained by the number of available vessels and counterparty exposure. The alternative solution is to manage your risk with an FFA."

The spot market for very large crude carriers had breached the $300,000 per day mark on some routes on October 11 after the US imposed sanctions on units of China's giant Cosco Shipping for carrying Iranian crude, limiting tonnage available for international trade.

In addition, Unipec joined ExxonMobil in deciding to stop chartering any vessels that have called at Venezuelan ports over the past 12 months.

The Middle East Gulf to Singapore and China routes hit $305,998 per day and $300,391 per day, respectively, almost doubling in a day in response to the US action.

Similarly, rates on the West Africa to China route surged to $278,057 per day.

The rates have since fallen to below $100,000 per day.

Freight Investor Services' tanker FFA broker Zoe Upson said that although everyone in the market had expected the tightening supply and demand balances to lead to higher rates, few had anticipated the shake-up that occurred given the combination of external factors.

"With the underlying dynamics having tightened for months, even a small change might have tipped the balance decidedly in owners' favour. As it happened, the Cosco sanctions were a massive impetus," she said, adding that more volume traded in the week to October 14 than in the whole of June.

"We saw more owners coming in to hedge out the rest of the year together with other new counterparties who helped to swell the traded volumes, though the peak appears to have subsided for now," she said.

In the clean tankers FFA market, 8,468 lots were traded in the week to October 21, up from 6,693 lots in the prior week. The five-year average is 2,939 lots traded, according to Baltic data.

Mr Jackson said: "The Baltic has invested in growing the tanker FFA market, which has increased the profile of FFAs and their use in risk management, With improved exposure and trust in tanker FFAs, this is now an option that many in the market feel confident in incorporating into their strategy."

WHAT TO WATCH

Novatek claims ice-classed LNG tankers cleared of Cosco sanctions fallout

SIX ice-classed liquefied natural gas carriers owned by Teekay LNG and China LNG that have been caught up in US sanctions against Cosco are now free of legal troubles.

TC LNG, the joint venture between Teekay and CLNG that owns the six 172,000 cu m ice-classed LNG carriers, notified Yamal LNG, the Russian Arctic LNG exporting facility that Russian gas giant Novatek operates, that these six ships that are meant to service it are no longer considered "blocked" entities by the US Office of Foreign Asset Control, Novatek said in a statement.

TC LNG had been caught out in the fallout from US sanctions on Cosco tanker companies imposed in late September. CLNG is co-owned by one of these sanctioned companies therefore making assets controlled by CLNG "blocked" under terminology used by the Office of Foreign Assets Control, effectively sanctioning them as well.

Teekay announced on Tuesday that Cosco Energy Transportation, whose two subsidiaries were the ones been sanctioned by the US, has "completed an ownership restructuring on arm's-length terms which has resulted in CLNG no longer being classified as a "blocked person".

Teekay LNG Partners' stock had risen by 17% on the New York Stock Exchange from the opening price on Tuesday to $15.59 as of 12:05 hrs US eastern time.

The parent company, Teekay Corporation, also saw its stock on the NYSE jump from opening price by around 17% to $5.03.

All six of the vessels are committed to servicing the Yamal LNG project until at least 2045.

Four of the six ice-classed tankers are already in operation, while the fifth, *Georgiy Ushakov*, left DSME in South Korea in September and is currently in the Russian Arctic destined for the Norwegian port of Kirkenes, according to Lloyd's List Intelligence.

A few weeks ago, a senior Novatek official had said that the company was considering setting up LNG transhipment hubs in Norway and elsewhere in Russia to deal with the fact that the LNG carriers were caught up with the sanctions.

Novatek did not immediately respond to requests for comment on this matter.

UK to uphold Maritime Labour Convention after EU exit

UNDER the tweaks made by the UK government to its EU withdrawal bill, the Maritime Labour Convention will remain in effect after Brexit, alongside many other European Union employment protection rules.

The move is being interpreted as an attempt to secure a parliamentary majority for the measure by winning over Labour MPs who represent Leave-voting seats, in the belief that they will support the legislation if EU levels of employment protection are maintained.

While a handful of Labour lawmakers have publicly indicated that they will back the government, the crunch vote tonight remains too close to call.

If everything goes the government's way, the bill will be passed as soon as Thursday, paving the way for Brexit on October 31, under arrangements that would mean a customs border in the Irish Sea.

If the bill fails to carry, prime minister Boris Johnson has said that it will be withdrawn, and that he will demand a general election.

Colloquially known as 'the seafarers' bill of rights', the MLC is actually an International Labour Organisation convention adopted in 2006, which sets minimum standards for most aspects of seafarer working and living conditions.

It has been transposed into EU law through Directive 2009/13/EC and Directive 2013/54/EU.

Under the European Union (Withdrawal Agreement) Bill published today, both of these directives are explicitly listed as 'workers' retained EU rights'.

These are defined as workers rights which the UK was obliged to confer by virtue of EU directives, and which after the completion of the Brexit implementation period, will continue to have effect by virtue of the European Union (Withdrawal Agreement) Bill passing into law, as modified by any subsequent Act.

The decision was welcomed by the Chamber of Shipping. A spokesman for the industry trade association commented: "The Maritime Labour Convention is a vital pillar of international law and we are pleased to see its inclusion in the Withdrawal Agreement Bill."

There was also support from Human Rights at Sea, a UK-based charity which has been a prominent advocate of the MLC.

"For the sake of the continued protection of labour rights for seafarers, it remains essential that the MLC remains effective and applicable in English Law to assure legal routes to effective remedy for abuses at sea," said chief executive David Hammond.

Nautilus International, the officers' union, said that it backed the Trades Union Congress position on this issue, which is that the UK government should agree an internationally binding legal commitment on employment rights, ensuring appropriate enforcement mechanisms and routes for individuals to bring challenges, but has consistently refused to so.

OPINION

Yard Talk | Another rough year ahead?

WHEN Evergreen Marine recently announced it would build four of its 23,000 teu newbuildings in China rather than charter them from Japan as it had originally planned, many observers were surprised, *writes Cichen Shen*.

Following the news, some market observers speculated that CSSC (Hong Kong) Shipping, the leasing arm of the Chinese builder, had offered an "extremely attractive" cost of financing to snatch the orders away from Imabari Shipbuilding and its shipowing unit, Shoei Kisen Kaisha, which have been a frequent tonnage provider for the Taiwanese carrier.

The other six super-sized boxships were won by Samsung Heavy Industries, which has only hit 54% of its annual target for new orders as of end-September. Perhaps, then, it is understandable that the South Korean yard, keen to boost its backlog, accepted the price — $153m apiece including scrubbers — with a thin margin.

Behind the intensifying price competition lies a flagging shipbuilding market, which has been a theme throughout this year.

In China, new ship orders dropped 27.4% year on year for the first nine months to 19.5m dwt, according to statistics from the China Association of the National Shipbuilding Industry. Over the same period, export orders placed at Japanese yards dipped 7% to 6.7m gt, data from the Japan Ship Exporters' Association shows.

Globally, newbuilding contracts fell 44% in January-August on an annualised basis to 35m dwt, while investment in fresh tonnage shrank 30% to $36.5bn, Clarksons estimates.

The market has been dulled by the growing disquiet about various trade disputes and the 0.5% sulphur cap rule being enacted by the International Maritime Organization.

Most shipbuilders have had a rough time. The question is will next year be better? Not really.

The macro uncertainty is hardly improving. Shipping markets will have taken note of the recent warning by the International Monetary Fund about a darkening global growth outlook. China, one of the world's largest commodity importers, has seen its economic expansion slow to a 30-year low. And its trade negotiations with US, which insists it is time China traded on a level playing field, have yet to reach any firm agreement.

At the same time, few shipping sectors seem to be displaying a structural vessel shortage and require immediate replenishment. Even though there are always investors with an ordering appetite, regardless of the macro backdrop, the difficult choices on fuel solutions are continuing to put a dampener on spending on new ships — this time triggered by the IMO's greenhouse gas emission rules.

Most of those ships ordered next year will likely be part of the ocean-going fleet in 2040, amid a tightening decarbonisation requirement that aims to cut the GHG emission by 50% by 2050 compared with 2008.

Scrubbers may not be as environmentally friendly as their advocates make out. The high sulphur fuel oil may become less available and more expensive in two years' time upon ship delivery. These kinds of open-ended issues mean the investment on equipment will be hard to recover.

Low sulphur fuel appears to be the most mature solution. However, the value of ships burning such energy can plummet if the uptake of liquefied natural gas or the even cleaner fuels — for instance, hydrogen and ammonia — rises substantially in the near future as technology and infrastructure improve. That said, none of the latter options are cheap and easy to convert to.

This combination of market headwinds and an unpredictable path for future fuels will give owners and their financiers a good reason to hesitate when pondering any large newbuilding plans next year or even beyond. A lot of them have bided their time, and they should not mind waiting a bit longer to see how things will develop.

If true, this will be a big challenge for the shipyards, but, perhaps, bode well for the shipping industry — at least in the view of Ralph Leszczynski, the head of research at Banchero Costa.

"All the major shipping sector are already suffering from significant overcapacity. We simply don't need more orders over the next three to five years." he said.

ANALYSIS

US-China tariff delay does little to stabilise freight demand

DONALD Trump's decision to postpone a scheduled October 18 tariff hike on $250bn of imports from China has failed to lift the uncertainty around a "mercurial trade environment" in which importers have to assume the worst to avoid rising costs, freight sources believe.

Forcing China to trade on a level playing field has been a centrepiece policy for the Trump administration throughout its tenure. As negotiations about a tentative US-China trade deal continued, Washington delayed a planned rise on selected Chinese goods that would have seen tariffs go up from 25% to 30%.

The National Retail Federation lobby group welcomed the move as "good news to US retailers and consumers". It reported that US retail sales in September were down 0.1%, seasonally adjusted from August, but up 4.5% unadjusted year over year, according to the NRF.

"While uncertainty around trade policy and other issues has dampened consumer sentiment recently, consumers still have a lot going for them as evidenced by longer-term trends and factors like the tight labour market," federation chief economist Jack Kleinhenz said.

"September is a tricky month to measure because of seasonal factors like the end of summer and back-to-school spending, and this year's early Labor Day may have moved up some spending into the last days of August."

Freightos, the digital freight rates specialist, predicted that the latest US-China tariff delay will do little to help stabilise a volatile freight demand environment.

"Despite flat rate growth, China-US shipping prices may continue to grow in November — in both 2017 and 2018, peak season prices only truly peaked in the second week of November," the online freight marketplace said in its latest Baltic Index container price update. And while the latest tariffs were deferred, Freightos warned that the impact so far on small US businesses, both in profitability and sourcing behaviour has been "significant".

The index showed that China-US west coast prices (FBX01 Daily) increased slightly to $1,321 per feu with a handful of carriers increasing prices mid-month.

"There may be another small spike next week as forwarders catch up after Golden Week and belatedly implement mid-month price rises. For now, prices remain flat, 7% behind 2017 prices, and well (43%) behind last year's high prices."

China-US east coast prices (FBX02 Daily) dropped 5% since last week to $2,587 per feu.

"That makes for a mixed bag when compared to recent years — down 25% on 2018 (when prices were high), up 31% on 2017 (when prices on this lane were crashing) and even up 7% on 2016 (when the Hanjin crisis cranked prices up)."

Freightos said it was hard to see how the indefinite deferral of the 25% tariff increase will have much impact on China-US shipping prices.

It said: "As President Trump proved in May, deferrals can be axed at very short notice, making for a mercurial trade environment whereby importers have to assume the worst in order to avoid massive losses. Nevertheless, a smattering of optimistic carriers tested the waters with mid-month price increases.

"Deferrals or not, importers are stocking up for holiday shopping with the NRF expecting a holiday sales windfall this year, and November's imports are forecast to be 9% up on last year, creating an environment more conducive for significant ocean freight price increases early next month."

Despite the unpredictable policy decision-making in the US, container lines appear to have enjoyed a better first half of 2019 compared with the same period last year.

However, there is less-comforting statistics from the box port sector. Drewry said that despite the "unpredictability amid the escalating trade war" between the US and China, container carriers performed better in the second quarter of 2019 than in the second quarter of 2018.

"Nonetheless, clouds of uncertainty have been hovering around the industry as spot rates continue to decline on major east-west trades notwithstanding better capacity management by carriers," the analyst said.

"On a positive note, some front-loading surge on China-US trade to beat the latest 15% levy on Chinese imports and stock up earlier than usual for Thanksgiving and Christmas sales could boost transpacific trade and freight rates."

Top-ranked bunker suppliers boost storage off Singapore

THE Strait of Malacca recently welcomed yet another new addition to its fast-expanding flotilla of floating bunker storage — Equatorial Marine Fuel has brought its newly acquired very large crude carrier, *EM Vitality*, to the busy body of water off Malaysia.

Executive director Choong Zhen Mao told Lloyd's List the family-owned marine fuel business, which ranked among the top five bunker players in Singapore — the world's number one marine fuel hub — has forked out over $30m this year to acquire two VLCCs including this latest addition.

The first of the two tankers, *EM Splendour*, which the Choongs acquired at almost $17m from a unit of China State Shipbuilding Corporation, has already been deployed in the waters off Tanjung Pelepas.

In recent weeks, the Choongs went on to finalise the purchase of the second designated floating bunker storage unit, *EM Vitality*.

EM Vitality — renamed from *Hawtah* — was previously owned by a Middle East-focused player. The tanker was last active off Egypt and Saudi Arabia before it set sail for Malaysia, Lloyd's List Intelligence data showed.

Mr Choong explained that Equatorial Marine Fuel aims to boost quality control over the marine fuel products it supplies to shipowners by investing in the two VLCCs.

Come January 1, 2020, the International Maritime Organization's 0.5% sulphur rule will take effect and open the floodgates for multiple fuels to enter the bunker supply stream.

Fuel players are generally expected to offer very low sulphur fuel blends derived from mixing 3.5% fuel oil with distillates to shipowners, rather than supplying straight-run products from the refineries.

Fuel quality and compatibility issues — in addition to availability of compliant fuels — have thus emerged as top concerns among shipowners.

Physical suppliers active out of Singapore have sought to reassure their clients that co-mingling of fuels of different specifications will not occur during the delivery process.

Equatorial Marine Fuel is selling itself as a compnay prepared to go the extra mile to mitigate the fuel quality and compatibility risks.

Mr Choong said that each of the two newly acquired VLCCs comes equipped with segregated tanks and systems capable of storing fuels of three different specifications at one time.

The tankers have secured charters with P66 and Petro Summit as floating storage for bunker quality products in Malaysian waters neighbouring Singapore.

Equatorial Marine Fuel has identified these two counter-parties to the vessel charters as suppliers for IMO 2020 compliant marine fuels, Mr Choong added.

The family-owned marine fuel business is among several bunker players licensed to operate out of Singapore that have invested in floating storage along the Strait of Malacca, Lloyd's List Intelligence data shows.

Of the 13 VLCCs named on bunker player Ocean Tankers' published operating fleet list, six have either been hovering around or moving in and out of the anchorages of Tanjung Pelepas and Sunggai Linggi for at least the past three months.

Ocean Tankers has designated two more VLCCs as floating storage units — *Sea Equatorial* and *E Mei San* have respectively spent extended time at Tanjung Pelepas anchorages since April and August.

Sentek Marine, which ranked third in bunker sales last year, also has two tankers — *Merlion M* and *Global M* — stationed off Tanjung Pelepas.

Two other vessel owners or operators that are not licensed bunker players in Singapore have tonnage deployed in the same area.

CSSC has placed four tankers that are on the operating fleet of its Singapore-based trading unit off Tanjung Pelepas and Kukup.

Link Harvest's tanker, *New Global*, has been operating at Tanjung Pelepas anchorage since the start of its long-term charter to a unit of Hong Kong-listed NewOcean Energy.

NewOcean Energy has also incorporated a business in Singapore.

IN OTHER NEWS

K+N earnings improve on higher volumes

KUEHNE + Nagel has reported increased profits for the first nine months of the year on the back of improved performance in its sea freight and overland divisions.

Group earnings before interest, tax, depreciation and amortisation was up 6.6% to SFr794m ($803.4m) for the period, despite a slowing global economy and increased trade tensions.

"Against the backdrop of consistently tense global markets, K+N once again delivered very solid results," said chief executive Detlef Trefzger. "In sea freight and overland in particular, our focus continued to be on customer service, cost efficiency and digitalisation."

Italian regulators sign off 49% MSC stake in Messina

ITALY'S competition authority has signed off an agreement to allow world boxship number two MSC to take a 49% stake in Genoa-based Ignazio Messina, as well as a majority interest in four of the latter's eight con-ro vessels.

No significant competition issues are raised by the transaction, the Autorità Garante della Concorrenza e del Mercato has ruled.

The development finally seals a deal that has been more than two years in the making, with Lloyd's List first reporting talks between the two sides as long ago as February 2017.

Sovcomflot sends two tankers to China via northern sea route

SOVCOMFLOT has completed two tanker transits of the northern sea route using liquefied natural gas-fuelled vessels.

The company said aframax sister ships *Mendeleev Prospect* and *Lomonosov Prospect* both successfully completed their respective voyages eastbound during the last week. Both 113,000 dwt tankers were bound for China with a cargo of crude oil from the port of Primorsk. With favourable ice conditions along the entire route and precise route planning, both vessels travelled the entire length of the NSR without icebreaker escort, Sovcomflot said.

"It is gratifying to emphasise that there is an ongoing demand for cargo transit along the northern sea route during the period of summer navigation," said chief executive officer Igor Tonkovidov.

Golar Power scores second gas-to-power project in Brazil

GOLAR LNG's power joint venture with Stonepeak Infrastructure won their second gas-to-power project involving the deployment of another floating storage and regasification unit in Brazil.

The 50:50 joint venture, Golar Power, was awarded a 25-year power purchase agreement, which will involve the joint construction of a 605 MW power plant with the Brazilian National Electric Energy Agency.

Golar Power plans to invest in a new liquefied natural gas terminal at the Port of Vila do Conde to supply gas to the power plant.

Iran reported to be planning to build 200 ships

IRAN has unveiled plans to build 200 cargo ships in domestic shipyards in a move to support local industry.

Iranian industry, mining and trade minister Reza Rahmani said the country is planning to build the cargo ships based on its maritime development programme, as reported by Tasnim news agency.

"In the country's maritime industries development programme, we have provisioned the construction of 200 cargo ships with an investment of €300m ($334m)," Mr Rahmani said.

Carlyle Group quits joint oil export project

CARLYLE Group has withdrawn as a stakeholder in Lone Star Ports LLC, which has proposed construction of the first US onshore export terminal servicing fully-laden very large crude carriers near Corpus Christi, Texas.

Sean Strawbridge, chief executive of the Port of Corpus Christi, said Carlyle notified the port on October 8 it would no longer proceed with its investment, leaving construction company Berry Group as the project's single backer.

Carlyle said in a statement Berry Group is now the sole owner of

Lone Star but gave no explanation for leaving the project, which it said continued to be actively developed.

Navios Acquisition completes loan repayment

TANKER owner Navios Maritime Acquisition has repaid its Term Loan B eight months ahead of the due date.

The move by the owner of 38 tankers, with three very large crude carriers on order, follows a similar prepayment made earlier this month by Navios Group affiliate Navios Partners.

"We devoted a great deal of effort to achieving this result," said chief executive Angeliki Frangou. "Through a combination of sale-and-leaseback transactions, commercial bank debt and cash, we extended the maturities of our debt through 2027, reduced our cost of capital and strengthened our balance sheet," she said.

Vale lowers full-year iron ore sales guidance

BRAZILIAN iron ore miner Vale has lowered its full-year sales figure as it has decided to suspend operations at the Itabira complex.

It now expects the 2019 figure at the lower end to midpoint of the 307m to 332m tonnes range, the miner said in a statement. That compares with its previous guidance which was at the midway mark.

It said on Monday that it has "temporarily suspended" the disposal of tailings at the Itabiruçu dam, which receives waste from the Conceição mine, while it assesses "the dam's geotechnical characteristics".

Classified notices

Looking to publish a judicial sale, public notice, court orders and recruitment?

Please contact **Maxwell Harvey on +44 (0) 20 7017 5752 or E-mail: maxwell.harvey@informa.com**

Lloyd's List Intelligence
Maritime intelligence | informa

The Next Generation Lloyd's List Intelligence

Uniquely powerful vessel tracking, characteristics, ownership and incidents data.

At the centre of Lloyd's List Intelligence is our online vessel tracking system, Seasearcher. This gives you access to the transactional and analytical data required to make a measured difference to your business, whether you are trying to increase operational efficiencies, manage risk, or develop new business opportunities.

The new Next Generation platform was launched earlier this year to offer our customers a greatly improved service and some fantastic new features including:

- A modern, simplified search and mapping interface
- Streamlined operational workflows and geospatial tools
- Enhanced visibility of port, terminal and berth activity including new alerting and filtering tools
- Increased vessel tracking data granularity with improved AIS capabilities
- Raw data manipulation through Excel downloads

To find out more about Lloyd's List Intelligence services, please email **info@lloydslistintelligence.com**, call **+44 (0)207 7017 5392** or visit **info.lloydslistintelligence.com**