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Shrinking fuel oil spread cuts scrubber earnings premiums

THE SPREAD BETWEEN high- and lower-sulphur marine fuel oil is contracting, which has slashed earnings premiums for scrubber-fitted vessels.

The difference in price between high- and lower-sulphur fuel oils has shrunk by two thirds in two months, falling below $100 per tonne in Singapore for the first time on March 2.

The price of 0.5% very low sulphur fuel oil in Singapore is now 37% below what it cost on January 1, reaching $393.25 per tonne on March 2, according to price reporting agency Argus Media. That compares with 3.5% fuel oil at $314 per tonne, down 6% over the same period.

The VLSFO physical price reflects free-falling demand for land and air transport fuels that has drastically shrunk the use of middle distillates, which include jet fuel, diesel and gasoil.

Many VLSFO blends are higher-sulphur fuel oils that are cut with now-cheaper marine gasoil to reduce their sulphur content.

Middle distillates are leading the oil complex lower as the coronavirus outbreak alongside the warmest winter on record removes at least 700,000 barrels per day in global demand from the market.

That is also reflected in low-sulphur gasoil futures trading on London's ICE Futures Exchange, now 27% below their three-month high this week, compared to Brent crude, down 22%.

At the beginning of February, daily earnings for a scrubber-fitted aframax tanker on the Middle East Gulf to Asia route were $12,000

higher than a conventional tanker running on compliant, higher-cost fuel oil, according to calculations from London shipbroker Braemar ACM.

Last week the shipbroker calculated the same earnings premium much lower, with the difference now shrunk to a smaller, $7,300 daily.

The change in the fuel oil pricing structure is likely to extend payback times for the scrubber technology, now deployed on more than 2,700 trading vessels, according to Lloyd's List Intelligence data.

Scrubbers are now installed on some 16% of the global crude tanker fleet, and 12% of bulk carriers and containerships, as measured by deadweight tonnage.

The sulphur abatement technology costs about $2.5m to retrofit.

When the price difference between 0.5% and 3.5% fuel oil was as high as $300 per tonne at the end of December, the payback period for a scrubber-fitted very large crude carrier was seen as short as six months.

The earnings premium for a suezmax tanker would see the investment recouped within 18 to 24 months at a spread of $200 per tonne, according to Norwegian investment bank Cleaves Securities.

WHAT TO WATCH

Forwarders count the cost of coronavirus impact

KUEHNE+Nagel expects the coronavirus outbreak to lead to a significant reduction in its China sea and air freight volumes in the first quarter of 2020, with DHL also highlighting that the virus and its secondary effects would have a material impact on its performance.

Chief executive Detlef Trefzger told analysts at a conference call that the Switzerland-headquartered global freight forwarder was likely to see a year-on-year decrease of 20% to 40% in teu volume, and a fall of 10% to 20% in air freight tonnage for its China business as a result of the coronavirus outbreak.

"I'm only talking China here, not the rest of the world," he said, but adding that more and more of K+N's customers are reopening factories in China and getting back to work.

"We are seeing strong growth, week over week, in customers retrieving containers in port yards. These need to be filled now with goods produced at various manufacturing sites in China. So, the outlook is for our sea freight bookings to increase again amid a gradual normalising of the situation."

Mr Trefzger said the company was still confident about the full year results for its Chinese business, despite the decline in volume and earnings before interest and taxes in the first quarter of the year compared with the same period a year ago.

"We have not calculated any revamp effect yet (in Chinese production), but we are preparing for stock rebuilding in the second and third quarters of the year in certain industries and for certain customers."

Mr Trefzger added that to date none of K+N's 5,200 employees in China had contracted the virus, but the company "had a disruption with staff not being able to get back to work for a couple of weeks" after the Chinese New Year break.

"Today, our business continuity plans are active with the reopening of the vast majority of our branches and 90% of staff are back on the job — 60% of them in the office and 30% working from home."

Meanwhile, alongside its full-year financial results announcements on Friday, Deutsche Post DHL Group said it had seen a good start to 2020 in January and was prepared for the usual effects around CNY in February when the coronavirus control measures were introduced by the Chinese government.

Since then, it said the business of the group's DHL Supply Chain and DHL eCommerce Solutions had only been "marginally impacted" by the disease.

However, its DHL Express and DHL Global Forwarding divisions were more significantly affected, with the disruption to the cross-border trade flows into and out of China.

The negative impact of coronavirus on the group's earnings before interest and tax is expected to reach around €60m-€70m ($66.9m-$78m) for February, compared with initial internal planning.

But it said the implications for the group results for full-year 2020 "cannot be currently concretely assessed".

"Should the macroeconomic situation normalise again, there could also be positive effects for logistics companies," the company added. "In case of a longer duration or a worsening of the current situation over the coming months, the negative impacts for the group are likely to outweigh the positives."

Equipment shortages hit shippers

SHIPPERS and cargo owners in the US and Europe are facing a shortage of empty containers as a result of carriers' blanking sailings because of lower volumes emanating from China.

Container repositioning service provider Containers xChange said that based on carrier statements and its own Container Availability Index, the trend was expected to continue and worsen for shippers.

The index, which forecasts supply and demand in containers for many large port locations, shows that compared with 2019, containers are piling up in China, increasing by almost 50% for a comparable week last year.

"Usually, it is the other way around, but now we have a deficit of containers in North America and Europe, index values for Hamburg, Germany dropped by 33%," Containers xChange said.

"For Los Angeles, it is even worse and the forecast says it will not get better soon."

As a result of the blank sailings, non-vessel owning operators have been forced to hold empty equipment longer than usual, incurring more detention and demurrage charges, chassis fees and repositioning costs, in addition to possible interchange fees.

Additional surcharges and costs include peak season surcharges, container imbalance surcharges, congestion surcharges and general rate increases.

But there are some signs the supply chain out of China may be beginning to move again.

In its latest customer advisory on the impact of coronavirus, French carrier CMA CGM said it was seeing signs of improvement in China.

"Manufacturing activities are gradually picking up, more port workers and truck drivers are returning to their posts, and cargo flow is easing up at the major coastal ports," CMA CGM said.

"In short, business operations have now entered the recovery phase."

Increased marine demand underpins Hempel's return to growth

HEMPEL, the Danish paints and coatings business, returned to growth with a 14% increase in full-year revenue to €1.5bn ($1.7bn).

Organic growth in the second half of the year was 4.8%, reflecting increasing demand within the marine and protective segments.

About 25% of Hempel's revenue is generated by the marine segment; the company is ranked third-largest in the marine coatings sector.

The top-line result came after several years of decline from €1.6bn in 2015 to €1.3bn in 2018.

"Hempel is a growth company again," the company said in its annual report.

It reported positive organic growth in Europe, Middle East and Africa region, and in Asia Pacific region. EMEA experienced 19% growth, which was strongly influenced by a new acquisition. Organic growth in the region of 1.7% was driven by Hempel's marine segment, where there was a strong performance in dry docking and higher demand for the flagship product, Hempaguard X7.

Overall, the marine segment endured a slow start to 2019, however there was a solid performance in the latter half of the year. The segment ended with organic revenue growth of 10%, led by dry docking, and the launch of its cutting-edge Hempaguard MaX hull coating solution had a significant impact.

Hempel's long-term aspiration is to double the annual revenue to €3bn by 2024.

Chief executive Lars Petersson said he hoped 2020 would continue Hempel's expansion.

"Despite increasingly volatile market conditions, as well as a potential slowdown in the world economy, we still expect to grow organically in 2020, in line with or better than the market," he said in a letter to shareholders.

This will partly be achieved through acquisitions, and by making significant further investment in China. "With that, we will establish a solid platform for further profitable growth in our Asia-Pacific region," added Mr Petersson.

"We are continuously scanning the market for potential acquisition targets, including businesses that could strengthen or broaden our services value proposition. We have a strong pipeline of candidates and expect to continue to play a leading role in the consolidation of the industry in 2020."

Speaking during a Lloyd's List visit to the Hempel head office in Lyngby, north of Copenhagen, chief commercial officer Michael Hansen explained the company's sustainability path. "In partnership with the shipping industry, Hempel has for years been committed to limiting fuel consumption using hydrodynamic hull coatings, which reduce drag and improve fuel efficiency.

"The increased focus on fuel savings is due to new regulation and ambitious climate targets. This creates new opportunities as customers will look to solutions such as better hull coatings to reduce emissions."

He said the 1,700 vessels coated with Hempaguard had saved more than 10m tonnes of CO_2. Hempel joined the Getting to Zero coalition in October 2019 with a view to sharing knowledge and expertise to enable zero emission vessels to operate on deepsea trade routes by 2030.

Head of the marine segment Christian Ottosen forecast long-term growth up to 2025 at 2% to 3% a year. The soft newbuilding market could be influenced in future by new regulations, however the dry docking market is growing in spite of docking schedules being affected by scrubber installations.

"There is a strong focus on high-end coatings, driven by the need to reduce emissions and the need to lower bunker costs," Mr Ottosen said. According to Hempel, in 2010, about 70% of coatings supplied had little impact on fuel savings while 29% had high impact. By 2015, 43% had little impact, but 35% had high or very high impact. Last year, 35% had little and 50% had high or very high impact.

"The customers' customers are pushing for a coating product that protects the environment," he added.

ANALYSIS

Yangzijiang Shipbuilding faces labour crisis

CHINA'S largest privately run shipbuilder has fallen victim to the outbreak of the coronavirus outbreak, according to research by OCBC Bank.

Yangzijiang Shipbuilding's workforce level dropped to 30% in February as a result of restrictions imposed by local government on the return of subcontracted workers, according to equity analysts at the bank covering the Singapore-listed company. They warn the impact may persist in March.

"It is estimated that at least 80% of the workforce has to return by March for the group to hit its target delivery of 51 vessels this year." the bank said. "There are also delays in the shipbuilding supply chain across the region."

Shipyards in China have been impacted by the public health outbreak, with force majeur reportedly even declared to owners in some cases where newbuilding or repair projects cannot be delivered on time.

Yangzijiang executive chairman Ren Yuanlin said in a financial results statement that the company is doing its utmost to "prevent the coronavirus fiasco from affecting the yards and production activities".

"We will also optimise production resources to minimise any disruption to the delivery schedule," he said.

He added that Yangzijiang is resilient and prepared to deal with unknown situations having kept improving its operational efficiency during the past years.

The bank analysts said the shipbuilder's outstanding orderbook, which stood at $2.9bn at the end of 2019, can still keep its facilities at a healthy utilisation level up to 2021 and provide a stable revenue stream for at least the next one and half years.

However, they expected its new orders to reach only $1.3bn this year, even though the company maintains its target of $2bn after seeing good demand for large containerships.

Despite challenging market conditions, Yangzijiang recorded a 2% increase year on year in revenue to Yuan4.8bn ($694.8m) for 2019 and a 1% growth in net profit to Yuan3.1bn, which are within the analysts' expectations.

Executive chairman Ren Yuanlin returned to office in December, having been on leave to assist a confidential government investigation since the middle of last year.

Newbuild demand backed by long-term views on LNG expansion

FRENCH engineering group GTT has flagged record expansion in liquefied natural gas capacity last year and predicted a jump in newbuilding orders for LNG and ethane carriers over the next decade.

Orders would range between 285 and 315 for LNG carriers and 25 and 40 for very large ethane carriers for the years of 2020 through to 2029, according to a forecast supplied by the group behind the design of the membrane type containment system featured with most ocean-going LNG tankers.

These numbers signal an expansion from between 280 and 310 in combined newbuilding orders GTT had estimated for the two types of gas carriers for the 2019-2028 period.

GTT received 57 orders for LNG carriers last year, the highest number yet for its core business, and it is looking to tap further upside spilling over from record investments in new liquefaction plants.

Chairman and chief executive Philippe Berterottière said that the investment decisions announced last year in new plants with over 70m tonnes per annum of liquefaction capacity spell more orders for LNG tankers in the next three years.

Orders for VLECs are also on the rise along with increasing newbuilding activity in this niche segment.

GTT's membrane technology was selected in September for six VLECs placed with South Korea's Hyundai Heavy Industries and Samsung Heavy Industries.

These vessels are designed to transport ethane and other gas products — propylene, liquefied petroleum gas and ethylene — and will stand among the first to be classed 'LNG ready'.

This new class notation granted by ABS opens up the possibility for these VLECs to hold LNG in the future without having to undergo tank conversions.

The class society has earlier estimated that as many as between five to ten VLECs ranging from 90,000 cu m to 150,000 cu m in capacity will be placed with Chinese yards alone annually over the next five years.

LNG and ethane are two commodities seen as benefiting from a large trade pact being hammered out in phases between the world's two largest economies, the US and China.

The two superpowers have already signed the Phase One trade deal in January, though progress appeared to have been slow on the commercial front, especially after the coronavirus outbreak.

US-based Cheniere Energy in its recent financial results briefing highlighted challenges in nailing down long-term sales and purchase agreements that would support sanctioning of more liquefaction capacity.

The LNG developer was earlier believed to have been in talks with China's Sinopec over a multi-billion dollars deal that was said to be have been wrapped up with the larger US-China trade pact.

GTT acknowledged the risks spilling over from the coronavirus, which it said were still "difficult to assess".

Even so, it held that the LNG market "is mainly based on long-term financing and perspectives", suggesting some cushioning against shorter term disruptions.

Carriers face tough decisions over technology amid virus impact

THE spread of the coronavirus is having an impact even in areas beyond the well-known effects of blanked sailings and falling demand, as meetings between operational teams are reconsidered.

In an interview with Lloyd's List in Long Beach, Digital Container Shipping Association chief executive Thomas Bagge said the consequences of the disease were "more than you might expect".

"Depending on how it progresses — and there may be some improvement now as we're coming into spring — you have to take into consideration what is happening when you bring groups of people together to work on projects," said Mr Bagge.

DCSA's operational model involves bringing teams of technology specialists from its individual carrier members together to work on standardisation projects. The fear of spreading the virus between these teams is already being taken into consideration.

Moreover, the impact of the coronavirus on carrier revenues could lead to some cutbacks in its future developments, said Mr Bagge.

"There is no doubt that right now carriers are feeling the pressure. Cargo coming out of China is a lot lower than what it has been and you've seen all the blank sailings.

"Lines are focused on the cost game. That could of course have an effect on some of the work we do. But we hope that they will see that maintaining one [application programming interface] is cheaper than maintaining 20,000 [electronic data interchange] connections."

Both API and EDI are used in software solutions by companies to exchange business data, with the former said to have some more innovative features, such as real-time connections, that can improve efficiency.

"Hopefully, they will be smart about their decisions and realise that what it takes to fund DCSA is marginal." Mr Bagge added.

But he remained optimistic that carriers will stay involved.

"There may be some bigger things they do not want to kick off. We'll have to see what their appetite is. But I can't see them not doing anything in the bill of lading space."

He maintained that the carriers will benefit from the establishment of standards that DCSA was set up to define.

"Carriers have to stop competing on creating an electronic data exchange connection with customers and instead focus on competing on product offerings, price and customer service," he said.

"They are still an old-fashioned industry, but I think you will see things coming up like a consistent BoL across the industry."

The DCSA's next general assembly will have a proposal to become involved in establishing a BoL standard for carriers.

"The BoL is one out of a series of documents, but it is a critical one," said Mr Bagge. "It is frustrating for our clients to have different versions with each carrier. There is nothing in the technology space that would prevent the carriers from having products that are as simple to use as e-banking is today."

Mr Bagge pointed towards Swift's IBAN code, which allows direct payments between bank accounts around the world.

"In our industry, however, we send shipping information to the carriers and then on to other people, instead of having straight-through communication." he said.

MARKETS

Panama Canal imposes draught restrictions

THE Panama Canal Authority has reduced the maximum draught of vessels transiting the neo-panamax locks because of drought conditions in Gatun Lake.

Vessels arriving with draughts of more than 13.87 m may be allowed to transit, depending on the actual water level of the lake at the time, the authority said in an advisory note. "Otherwise, they will be required to trim or discharge some cargo to be allowed to transit." it added.

The restrictions come into effect from March 30.

According to Gibson, waiting time for non-booked vessels at the Panama Canal increased last week to more than 10 days for old panamax and smaller vessels, while the neo-panamax tankers only have to wait three days.

Lower water levels at Gatun Lake had prompted the Panama Canal Authority to reduce the number of daily available slots while traffic kept growing. This created a backlog of waiting vessels, it noted.

"Waiting time is becoming an increasing concern for owners and charterers, as the unplanned delay can prevent a ship from making its agreed laycan at a US terminal," the shipbroker said.

Rain is expected for May, however, which will increase the water level of the Gatun Lake until December.

Until then, and unless the situation improves, Gibson warned that operators would need to book a slot early to cross the canal without delay, or factor in a lengthy waiting time.

IN OTHER NEWS

Steamship Mutual offers cashback after near 5% tonnage growth

STEAMSHIP Mutual is offering members a $16m capital distribution after it emerged from the 2020 renewal with 4m gross tonnes growth in entered owned tonnage, a rise equivalent to 4.7% and in excess of projections, according to a statement from the International Group affiliate.

A further distribution is said to be under consideration.

The outcome contrasts with peers such as the American Club, which lost 9% of its aggregate tonnage after a sharp rise in premiums, and UK Club, which came out broadly flat, with a loss of around 1%.

Coronavirus: Shippers warned of medical testing fraud

SHIPPERS have been warned of increasing numbers of fraudulent invoices for medical testing services.

The International Transport Intermediaries Club warned of fake invoices sent to vessel owners and managers as countries, ports and organisations test seafarers to slow the coronavirus outbreak.

The marine mutual insurer added that most fraudulent invoices contained errors that were easy to spot. One scam invoice listed the vessel's flag incorrectly and was revealed by checking with the ship's master.

Polaris Shipping to remove fuel from Stellar Banner

POLARIS Shipping says it is preparing to retrieve the bunker oil from the stranded very large ore carrier Stellar Banner, as a potential oil leak has been contained.

The oil sheen initially spotted at the accident site has disappeared and the oil fence deployed around the vessel as a precautionary measure has been removed, according to a statement form the South Korean owner.

However, an anti-pollution team remains on standby.

The 300,630 dwt vessel is stranded about 100 km off the coast of Sao Luis, Brazil on the way out of the access channel of Ponta da Madeira maritime terminal.

South Korea offers financial relief to coronavirus-hit shipping

SOUTH Korea's government has moved to further bolster that nation's shipping companies and passenger ferry operators amid growing concerns about the economic fallout from the global spread of coronavirus.

Earlier in February, Seoul announced a set of measures to support the domestic maritime sector, including distributing $49.7m for passenger line operators and port cargo handling firms, according to Yonhap news agency.

Under the upgraded plan, the government will now provide Won90bn ($75.5m) of low-interest loans to local shipping companies should the virus continue to spread for more than three months. Each company can apply for loans up to Won5bn.

CINS changes board members

THE Cargo Incident Notification System has changed its board make-up, with Evergreen

make-up, with Evergreen executive YS Hwang taking over the chairmanship from Maersk's Uffe Ernst-Frederiksen.

Mr Ernst-Frederiksen will remain on the board as deputy chairman, while former deputy chairman Ken Rohlman will stand down.

"I'm looking forward to undertaking this challenging role for CINS and the industry that the organisation represents," said Captain Hwang. "My role is to lead CINS forward on a path towards the development of improved safety in the logistics chain and the promotion of best practice in the shipment all types of containerised cargoes."

Braemar to expand despite coronavirus fears

BRAEMAR Shipping Services said the coronavirus outbreak would hit its earnings for the year amid lower import volumes into China.

But the London-listed broker expected a good second half of the year after the strong tanker market late last year, adding that it planned new offices in Athens and Geneva.

Braemar said in a trading update that shipping markets saw significant falls in charter rates since the start of the calendar year, particularly the tanker and dry bulk markets.

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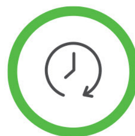

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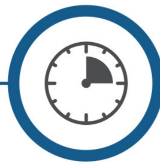

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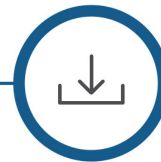

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