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Jet fuel arbitrage trades keep clean tanker earnings steady 'for now'



JET FUEL SHIPPED to the US west coast from South Korea and other Asian refiners is keeping the global clean tanker market steady for now, said Italian shipowner Paolo d'Amico.

The executive chairman of the d'Amico Group said a jet fuel deficit in California has been moving huge volumes of the aviation fuel from the Far East to the US west coast.

He hoped that if demand on this route abated, tankers being chartered for floating storage of middle distillates would still keep earnings healthy as any global economic downturn accelerated.

"This has been creating what I would call a steady market," Mr d'Amico told Lloyd's List of Asia-US west coast flows. He added that the suspension of flights into and out of many large European countries and the US would soon negatively affect the demand for clean product tankers. "However, we are not yet seeing the effects of this," he said.

Product tanker earnings have rallied in March on some routes, although gains do not match those seen in the crude tanker market, where rates for very large crude carriers have soared to the highest level since the Iraqi tanker wars in the 1980s.

While earnings for long-haul voyages to Asia from the Middle East have doubled this month to as much as \$41,000 daily, in the Atlantic basin, medium range tankers remain steady around the \$30,000 daily level.

Owners and operators remain uncertain about the sustainability of any rises given that shipments of diesel, gasoline and jet fuel are likely to fall as the coronavirus outbreak continues to paralyse land and air transport.

Demand for jet fuel is hardest hit amid a drastic fall in aviation flights, with airlines worldwide suspending operations and laying-off staff as demand collapses. Airlines' industry association IATA estimated losses at between \$63bn and \$113bn in a paper dated March 5.

Jet fuel refining margins — the profits derived from producing the middle distillate — were today assessed in Singapore at the lowest in records going back to 2009.

Long range product tankers transported some 23.5m tonnes of jet fuel imported by the UK and 27-member countries of the European Union in 2019, based on Eurostat data. The United Arab Emirates and Saudi Arabia were the biggest suppliers, at 5.7m tonnes and 3.5m tonnes respectively.

Despite the demand destruction, jet fuel arbitrage trades to West Africa, South America and California

were keeping tankers employed for now, Mr d'Amico said. Arbitrage trades allow jet fuel to be purchased and shipped to another area for sale at a profit. The market for US Gulf-South America routes "is still there", he added.

"We have to expect some demand destruction, but I think that the word will come back fast because we have to come fast."

Despite the reported seaborne surge in volumes, US Energy Information Administration data has not yet reflected any rising jet fuel exports. The US west coast imports of jet fuel reached a four-week average of 72,000 bpd for the week ending March 6, according to the EIA. That's less than the 112,000 bpd figure seen for the prior-year period.

There are requests to investigate the storage of middle distillates on long range 2 tankers, as well as larger very large crude carriers, Mr d'Amico said, although this had yet to directly translate to direct enquiries.

D'Amico International Shipping has a fleet of 45 product tankers, including 33 medium range tankers, which are mostly deployed in transatlantic trades.

WHAT TO WATCH

Fresh tanker record as Reliance takes VLCC for more than \$410,000 daily

A VERY large crude carrier has been provisionally chartered at a rate that equates to more than \$411,000 daily, setting fresh records for crude freight shipping costs if concluded.

Reliance is behind the deal for the 2004-built, 306,206 dwt *Princess Mary*, according to fixtures reported by tanker commercial pool Tankers International.

The Indian refiner agreed to pay Worldscale 400 for the tanker to load 270,000 tonnes of crude from the Middle East Gulf around April 2, for a voyage discharging at the west coast of India, likely the port of Sikka.

The deal is on subjects and has yet to be concluded but equates to daily earnings of \$411,000, Tankers International reported. The last fixture for this route was reported earlier this month at W57.

VLCC tanker earnings are now assessed at the highest levels since the Iraqi tanker wars in the 1980s, after a week-long chartering spree by Saudi Arabian shipping company Bahri.

Bahri chartered at least 15 VLCCs in four days, leading to panicked traders securing a further 41 of the largest tankers, sending rates to stratospheric levels.

The *Princess Mary* is currently off Singapore, after loading a cargo of Venezuelan crude and sailing to an area in the region where other VLCCs are kept for floating storage. The tanker's beneficial owner is Greece-based Andreas Hadjiyiannis, according to Lloyd's List Intelligence.

Baltic Exchange average VLCC rates soared to \$258,700 per day on Friday, up from \$28,245 a week earlier. Of the 56 VLCC charters reported last week,

24 remain on subjects and a further 30 have been concluded. One deal has failed.

The highest level for which subjects has been lifted is the CNOOC-chartered *Kos*, at \$180,000 per day, according to Tankers International as at 0830 hrs London time. This ceiling is being watched carefully and looked likely to be breached on Monday, with some 14 VLCCs on subjects at earnings higher than this, including *Princess Mary*.

Bahri triggered the tanker rally after the kingdom cut oil prices and launched a war for market share, pledging to flood the market with cheap crude. Saudi Arabian oil production will rise to more than 12m barrels per day from current levels of 9.7m barrels per day.

“The market does not need this much crude oil,” ACM Braemar said in a weekly report.

“Traders and oil producers are bracing themselves for a protracted period of lower oil prices as tensions between Saudi Arabia and Russia — the two largest oil producers outside of the US — worsen.

Crew changes remain blocked in China despite Beijing's easing policy

THE ban on crew changes remains in place at Chinese ports, although Beijing has made an encouraging gesture to partly ease the restrictions amid a slowdown in the spread of coronavirus in the country.

Shipping companies should be well informed of the anti-epidemic measures taken by the ports at which their ships are arriving, and should make timely arrangements for the relief of seafarers currently on board whose service contracts have expired, the transport ministry said in a notification late last week.

The requirement, though, only applies to crew on China-flagged international-trading ships.

The move came as the public health crisis seems to have improved in China. New infections have been kept under single digits or even stopped growing in most domestic regions, except for Wuhan, where the virus was first reported.

However, shipowners and shipmanagers contacted by Lloyd's List said managing crew changes in China appeared to still be a tall order owing to the

“VLCC period rates are higher on the back of increased oil supply; higher because of the contango market this has created, and the consequent floating storage play.

“This has similarities to four to five years earlier, with a surplus of oil on the water, and weak spot crude prices generating demand for inventory building and floating storage opportunities abound.”

The sustainability of sky-high rates is now being tested by the spreading coronavirus, which has paralysed air and land transport, leading to freefalling global demand for jet fuel, diesel, and gasoline.

“Although the new year is off to a slow start with seasonality coupled with the coronavirus, we believe the crude oil tanker market is likely to remain relatively strong in 2020 because of low global crude inventories, rising Saudi/UAE/Russian production, and tanker supply disruptions, while the refined products tanker market should benefit from increasing global refining capacity and slowing fleet growth,” said New York investment bank Jefferies in its weekly report on the maritime sector

restrictive rules imposed by local policymakers and ports, with few exceptions.

A China-based shipmanagement firm executive said that since February, that firm had successfully arranged only one embarkation at a port in Shandong province after consulting with the local government.

“And that was an exception,” the executive added. “The latest policy [from Beijing] only shows a mild effort. There is nothing substantial to lift the restrictions.”

A source from a Chinese state-owned shipping company said crew replacement had been difficult in the country over the past few weeks. He was not aware that the situation had been reversed.

That said, Fleet Management head of business development Vikas Grewal said that the Chinese authorities were allowing Chinese crew to return home on a case-by-case basis.

“This move is aimed at alleviating the Maritime Labour Convention issues,” he told Lloyd's List.

Some shoreside Chinese seafarers on standby said on internet community groups that they received sailing offers scheduled for the end of March at major ports such as Shanghai.

Despite the message to encourage relaxation, the Ministry of Transport in the statement also remains supportive of the preventive actions taken by domestic ports.

It noted in the announcement that shipping firms may extend contracts with seafarers having obtained their written consent and if the arriving ports refuse crew changes for reasons related to prevention of the coronavirus outbreak.

And even seafarers on duty for more than 12 months, who should be immediately discharged, can instead be asked to rest on board when facing such denials of disembarkation.

Many owners have been forced to seek alternative ports for crew change operations amid the continued prohibitions in China. But the efforts have been met with increasing challenges with infections starting to rise in other countries as well.

A Chinese very large crude carrier owner said his company was trying to change crew in Sri Lanka, although the operation continued to be “a big headache” overall as more countries have imposed coronavirus-related restrictions.

In its latest update, the US Coast Guard said it now considered it a hazardous condition if a crew member who was in Iran or China — excluding Hong Kong and Macau — within the past 14 days is brought on board the vessel during transit, and such cases must be immediately reported to the authorities.

Also, “crew members on these vessels will be required under [captain of the port’s] authority to remain aboard the vessel except to conduct specific activities directly related to vessel cargo or provisioning operations,” said the US Coast Guard.

The statement was followed by another notice from the Saudi Ports Authority last week to ban crew changes on ships coming from a string of virus-hit countries, including the United Arab Emirates, Italy and South Korea.

ANALYSIS

Coronavirus: Blank sailings hit US ports

PORTS along the US northwest Pacific coast continue to feel the effects of the coronavirus outbreak, largely through blank sailings which are reducing containerised imports up and down the region.

Two Seattle marine cargo terminals — Terminal 30 and Terminal 18, both managed by SSA Marine — shut their trucking gates on March 13. For Terminal 30, it was a one-off closure.

But trucking and maritime operations at Terminal 18 will halt every Friday for the foreseeable future “due to ongoing volume declines”, according to a statement by The Northwest Seaport Alliance.

Director of NWSA’s operations service centre Zach Thomas said the immediate cause of the temporary shutdown is several vessels cancelling — or voiding — their sailings in the past week.

However, Mr Thomas said fewer void sailings were expected in the coming week, although he could not say for sure how many fewer. He said the volume of

imports depended entirely on how quickly Chinese manufacturing could return to normal.

That cannot come soon enough for SSA Marine senior vice-president Bob Watters, who said cargo volumes have fallen by 30% this year compared with last year due to the combined effects of the coronavirus and the US-China trade war.

The NWSA has not yet reported figures for February, but said its total container volume for January 2020 was 263,816 teu, a 19.1% decrease from January 2019, with imports down 21.4%, and exports down 20.5%.

The Global Port Tracker, produced by Hackett Associates for the US National Retail Federation, said that for the NWSA “the first half of 2020 is forecast to decrease by 13.3% versus the equivalent period of 2019”.

But it expressed more optimism as the year develops, saying that “the second half of 2020 is forecast to increase by 14.3% versus the equivalent

period of 2019” while “the forecast volume for 2020 is 1.37m teu, which would be a 0.4% increase over 2019”.

Blank sailings have also adversely affected throughput at the port of Oakland, where officials said shipping lines have cancelled 20 voyages between February and April.

Officials said the port’s February import volume declined 9.2% compared to the same period last year. It said reduced volumes are normal at this time of the year due to lunar new year holidays in Asia.

But they also noted that Chinese factory closures to combat the coronavirus have reduced the output of finished goods sent to the US in containers. As a result, ocean carriers are voiding dozens more sailings, with a decline in March also “likely”.

Still, officials did say the port saw a 15.4% increase in containerised export volume last month over February 2019.

The figures show the port as having its busiest February for export cargo in the past six years as exports have increased year over year in five consecutive months.

Port of Oakland maritime director John Driscoll told Lloyd’s List that while it may be too soon to

Supply chain issues to linger as services return to normal

CONTAINER lines on the transpacific trade have started to resume services to pre-coronavirus levels but the impact of reduced volumes will linger for weeks as cargoes in transit arrive in the US, according to Federal Maritime Commissioner Carl Bentzel.

“I was heartened to hear that shipping lines have indicated that there is cargo for pickup and that trucking and port operations have substantially resumed in China,” Mr Bentzel said.

“I remain concerned that there will continue to be negative economic impacts as a result of delays, as shipments transit the Pacific from China. I would hope that the industry resists the temptation to take actions to price gouge or otherwise unfairly leverage their position.”

He said it would be necessary for all segments of the transport industry, from box terminals to

declare this a rally, “we’re encouraged by our export performance” which shows demand remains “strong” for export shippers’ products.

Global Port Tracker meanwhile projects a 3.3% decrease in Oakland’s imports between February and July against the previous six months — August through January — compared with a 4% slide between the same two periods of last year.

It forecast the first half of 2020 to increase by 1% versus the equivalent period of 2019, while the second half of 2020 is forecast to increase by 2.2% compared with the same time frame in 2019.

Overall, GPT projects Oakland’s 2020 import volume at 991,000 teu, representing a modest increase of 1.7% over 2019.

The adverse impact of blank sailings on Oakland and Seattle is much in line with the recent experiences of ports to the south in Los Angeles and Long Beach which, together, represent the number one container gateway in the US, with total throughput of imports and exports at some 18m teu a year.

Last month, a spokesperson for the Port of Long Beach told Lloyd’s List that the two San Pedro Bay ports together are going to have “50 blank sailings” in the first quarter of the year.

trucking and rail services, to contribute to secure normalcy.

“Our ability to recover from this economic disruption through the resumption of maritime commerce underscores the... importance of our maritime trade,” Mr Bentzel said.

“Hopefully the resumption of this service can allow our nation to recover as rapidly as possible.”

The FMC has been monitoring levels of blanked sailings and holding discussions with carriers about service levels and the resumption of normal trade.

It said that there were indications that US retailers and manufacturers, particularly in the auto manufacturing sector, were suffering shortages in inventory and components required for production. US exporters were also finding “logistical challenges” exporting US agricultural commodities.

MARKETS

Australia's LNG exports to Japan show a fall in February

AUSTRALIA'S liquefied natural gas exports to Japan slipped in February amid the coronavirus outbreak, new figures show.

Data from Australia-focused consultancy EnergyQuest showed the country delivered just 31 cargoes to Japan last month, down from 45 in January and 40 in February 2019.

One cargo originally bound for Japan was diverted to China, the consultancy noted, raising concerns over an expected plunge in Japan's LNG demand, following the shutting of schools there for one month from March 2.

Early cracks have also appeared in Australia's LNG trade with China.

Eight cargoes destined for China were delayed and

another three diverted. Two of those redirected were sent to India and one went to Malaysia.

But Australia's LNG exports to China have held up compared with last year — the resource-rich country shipped 29 cargoes to the world's second-largest economy in February, up from 26 for the same month last year but down from 40 in January.

EnergyQuest also noted no significant delays in Australia's exports so far, though February shipments from the country were 13% lower compared to January at 6.1m tonnes of LNG.

Australia's exports would have also dropped below Qatar's nameplate capacity of 77m tonnes per annum based on annualised February exports of 76.2m tonnes, the consultancy said.

Coronavirus: Marine claims for delay and disruption to rise

CORONAVIRUS is likely to see an increase in delay and disruption claims under marine policies, an International Union of Marine Insurance newsletter has warned.

The sector has already found itself in the firing line for claims indirectly sparked by the disease, including the invocation of force majeure and delay clauses in relation to charterparties and newbuildings and scrubber retrofit contracts with Chinese yards.

Writing in the latest edition of IUMI Eye, Clyde & Co associate Matthew Pearson argued that physical damage claims arising from perishable cargoes physically impacted by delay, or cargoes more generally subject to an extension of the insured transit, were also on the cards.

“However, the impact is more likely to be felt in terms of delay or disruption where no damage is

suffered, with cargoes or vessels not being shipped, sailing empty, being delayed or refused entry at discharge port.”

A key issue is the extent to which policies respond where there is no physical damage, under the kind of policy extensions affording non-physical loss cover that have found their way into wordings in soft market conditions.

For instance, extra expense, forwarding charges or access to property clauses in a cargo policy may trigger coverage; hull loss of hire policies may respond where a vessel is quarantined or denied port entry; and cruise line policies may respond where a cruise vessel's scheduled itinerary is directly affected.

None of these necessarily depend on any physical loss occurring, said Mr Pearson.

IN OTHER NEWS

Coronavirus: Greece bans passengers on Adriatic ferries as prohibitions tighten

GREECE has prohibited

passenger traffic on cross-Adriatic ferry services but freight movements currently remain unaffected by the edict.

The Greek move follows a decision taken last week by Spain also to block passengers arriving from Italy.

However, the decision, among a raft of additional measures to battle the spread of the coronavirus announced in Athens on Sunday evening, suspends passengers travelling in either direction.

Coronavirus: Stena Line to cut 950 jobs amid sharp drop in business

STENA Line is to cut 950 jobs in Sweden after coronavirus fears caused a "drastic decline" in ferry bookings.

The redundancies, at subsidiary Stena Line Scandinavia, include positions on board and offshore on nine Sweden-flagged vessels and in sister companies Stena Line Travel Group and Retail & Food Services, the company said.

"Due to the current situation we are facing, we have no choice but to adjust our operations and our costs to limit the drop in demand and secure the continuity of our freight operations," said chief executive Niclas Mårtensson.

Golar to develop LNG terminal at port of Suape in Brazil

GOLAR Power says it has signed a "Protocol of Intentions" with the state government of Pernambuco to develop a liquefied natural gas import terminal at the port of Suape in Brazil.

Operations are scheduled to start in the second half of 2020, subject to regulatory approvals and the conclusion of commercial agreements, the company said in a statement.

The terminal intends to use an LNG carrier permanently docked at the port, which will act as a supplier to truck mounted LNG ISO-containers, it said.

UAE bans MSC boxship for a year over sulphur cap violations

THE United Arab Emirates has prohibited an MSC boxship from

operating in the country's waters for a year in connection with violations linked to the 0.5% sulphur cap.

The UAE Federal Transport Authority said it has banned the Panama-flagged, 2006-built, 9,178 teu *MSC Joanna* for carrying non-compliant fuel oil and not following orders from local port authorities, according to a circular seen by Lloyd's List.

After introducing the 0.5% sulphur cap on January, which prohibits the use of high-sulphur fuel oil without scrubbers, the International Maritime Organization then brought in a ban on the carriage for use of HSFO on board all vessels without scrubbers, from the start of March. *MSC Joanna* does not appear to have scrubbers on board.

Coronavirus: Denmark rolls out worker compensation scheme

DANISH shipowners have praised new rules laid out by the government to cover 75% of the salary cost for employees whose livelihoods are severely threatened by the coronavirus shutdown.

A temporary compensation scheme for workers who would ordinarily be laid off was unveiled by prime minister Mette Frederiksen at the weekend. Under the agreement, companies that experience a decline in orders and fewer customers due to the coronavirus, and therefore cannot employ their staff, can receive a partial reimbursement for the three months to June 9.

The agreement applies to employees of all private companies who are exceptionally hard affected financially by coronavirus and therefore face having to notify redundancies for at least 30% or more than 50 employees.

Equipment shortages hit US and European shippers

THE drop in coronavirus cases in China is coinciding with factories resuming production, but the movement of empty equipment to China and the high number of blanked sailings has taken a toll on shippers with regard to backhaul trades.

"For the first time, there is almost no container equipment in Europe and North America owing to the carriers' blank sailings," said container positioning service Container xChange. "They want to be ready in China, waiting for the economy to go up again."

With the coronavirus outbreak now taking hold in Europe and the US, equipment turnaround times were putting even more stress on container lines, it added.

Frontline to buy 10 suezmaxes from Trafigura

FRONTLINE sealed a deal with Trafigura on Monday to buy 10 suezmax tankers, having secured \$544m in sale-and-leaseback financing from China's ICBC Leasing earlier in March.

Frontline had the option to buy another four suezmaxes under the deal with Trafigura Maritime Logistics, first announced last August, but opted not to.

It had agreed to pay Trafigura between \$538m and \$547m in cash for the tankers, plus 16m shares at \$8 each. Trafigura would own about 8.48% of Frontline's ordinary shares on closing, it said.

UK Club offloads occupational disease liabilities

UK P&I Club is to transfer its occupational disease liabilities to the London Alternative Investment Market-listed run-off

specialist Randall & Quilter Investment Holdings on financial terms that remain undisclosed.

Most of the claims result from seafarer exposure to asbestos on ships, in some cases going back as far as the 1950s. However, it can be 40 years or longer before symptoms of any disease occur.

This has resulted in significant compensation awards, especially where death results. From an insurer's standpoint, such claims represent a long-tail risk, with attendant uncertainties and volatility.

Globus Maritime gains one-year bond repayment extension

GLOBUS Maritime, a dry bulk carrier owner, has agreed a one-year extension of a convertible bond that was due to mature on March 13.

The Nasdaq-listed owner of five bulkers said that a waiver issued by the holder of the promissory note left the note in effect for another year, with the

maturity date extended to March 13, 2021.

The debt placement, announced one year ago, was with an unnamed private investor and brought Globus gross proceeds of \$5m at an annual interest rate of 10%.

Vale warns that operations could be hit by virus

THE capesize market continues to bear bad news. The latest – a warning from Brazil's mining giant Vale that it may have to curb operations due to the rapid spread of the coronavirus – does not bode well for a market that has been struggling to recover.

“As the outbreak develops over the regions where our operations are concentrated, we may face workforce related operational difficulties and may need to adopt contingency measures or eventually suspend operations,” Vale said in a statement.

It added that it relies on an extensive logistics and supply

chain, including several ports, distribution centres and suppliers that have operations in affected regions. A “significant portion” of its revenues last year came from sales made to customers in Asia (63.3%) and Europe (13.8%).

While Vale has not suffered any impact to its operations, logistics, sales or finances, it is monitoring developments closely. None of its employees have tested positive.

Coronavirus: Chevron sounds alert on Gorgon LNG project

CHEVRON has confirmed that a member of staff has developed coronavirus symptoms while on-site at the giant Gorgon liquefied natural gas export project in Western Australia.

The unnamed staff member, who had been overseas before developing the symptoms, has been isolated.

Those in close contact with the employee have likewise been isolated.

Classified notices follow



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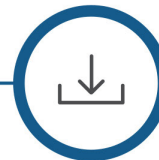
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