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LEAD STORY:
US restocking cycle to boost container demand

WHAT TO WATCH:
Trafigura flags financial consequences of regional carbon measures

Walls in the Channel? Illegal, immoral, impractical, impossible

ANALYSIS:
Economic Outlook: Weak oil demand and lower spending hit seaborne trade

VLGC supply-demand balance recovery a year away

MARKETS:
Norway pioneers flexible fuel cell technology to cut emissions by 40%

Centrica agrees long-term LNG supply contract

IN OTHER NEWS:
Cyber attack: IMO restores some access though key systems still offline

Call for tighter controls after virus outbreak on bulker

Euronav returns $200m to shareholders

StealthGas adds to Japanese-built LPG fleet

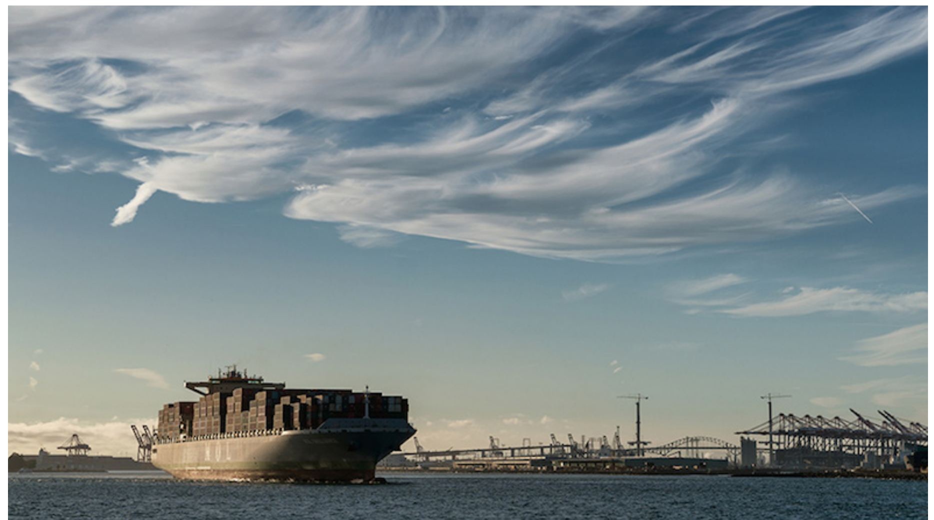
Thome and Carsten Rehder to form joint venture

UK offers funding to ports as EU exit looms

WSC reshapes board as it marks 20th anniversary

Aegean signs with Cosco Heavy for aframax tankers

US restocking cycle to boost container demand



THE US IS AT the beginning of what is likely to be one of the biggest restocking cycles in its history, with the benefits set to flow through to container shipping over the next two to three quarters.

"We have had one of the biggest post-recession recoveries in the US in final demand in the goods economy," said Aneta Markowska, chief US economist at investment bank Jefferies.

Consumption in the economy was still below pre-pandemic levels, she said, but there had been a decoupling between goods and services during the pandemic.

"The service economy remains impaired by social distancing but goods demand has surged, supported by fiscal policy," said Ms Markowska.

Goods demand was six percentage points higher than it was prior to the pandemic and a similar scenario was seen in the housebuilding market.

"Nobody anticipated demand to be this strong this quickly," she said. "As a result we have inventory to sales ratios that are at record lows," she said.

The supply side of the market had failed to keep up during the pandemic, partially due to supply chain issues during the first and second quarters, and partially because retailers had been caught off-guard by the sudden surge in demand.

There was also a change in the way producers were looking at the supply chain, with an increase in "precautionary inventory" expected.

"This is a trend that has been underway for a decade and it makes sense following a gradual increase in geopolitical instability, global weather events and health events, not to mention the trade war, all of which make a case for holding disrupt supply chains and make a case for holding higher inventories," Ms Markowska said.

"And with interest rates low, the opportunity cost of holding more inventory is zero."

The strength of the US economy had taken many by surprise after the sharp recession in the second quarter. But while the labour market had taken "a massive beating", strong fiscal stimulus packages had meant personal income in August was actual up 4.4%, despite the historic fall in employment.

Final consumer demand would depend on fiscal policy continuing, but even without any further stimulus, personal income growth would still be 2.5% than before the downturn.

"If you look at total personal income it looks like we didn't have a recession," said Ms Markowska.

Moreover, the trend towards inventory restocking was not dependent on final consumer demand.

"Based on what has been spent and how much supply has lagged, just to get the inventory-to-sales ratio in retail back to normal levels would need a lot of imports," she said.

"One beneficiary of this will be transportation and logistics, and because the inventory restocking is skewed towards consumer goods manufactured in Asia, we've already seen imports surge, with a lot more to come."

David Kerstens, transport analyst at Jefferies, said that container demand had recovered faster than expected following lockdowns, leading to the surge in container freight rates seen on the transpacific.

"Based on the restocking cycle in the US, and potentially in Europe as well, the outlook for the fourth quarter is favourable," he said. "Volume on the Asia-Europe trade is showing signs of recovery, although not as strong as we've seen on the transpacific. But it definitely accelerating from the 2% growth we saw in July. The seasonal downturn will likely be less severe."

Shippers in Asia were also noting that forward booking demand was strong into November.

"Some carriers believe that demand will be strong into January as well, with no slowdown over Christmas."

Container volumes and rates usually slip after the Golden Week holidays, but this year could see them stay high right through to the normal pick-up in activity ahead of the Chinese New Year in February.

WHAT TO WATCH

Trafigura flags financial consequences of regional carbon measures

REGIONAL measures to reduce carbon emissions from shipping will ultimately delay the uptake of low- and zero-carbon fuel alternatives, according to commodities trader Trafigura.

A regional approach, such as the European Union's proposed Emissions Trading System, would lack regulatory clarity, render chartering activity "incredibly difficult" and ultimately act as a block against the required long-term investment in zero-carbon fuels infrastructure, said head of fuel decarbonisation Rasmus Bach Nielsen.

"If you don't have clarity, then it will be incredibly difficult for the people who should be engaging in 10-year offtake deals in hydrogen-based fuels — and you need those 10-year deals in renewable projects to get them going," Mr Bach Nielsen said on the Lloyd's List Podcast.

"The shipowners will not buy the green methanol ships if you don't have certainty on the sourcing of fuel, ultimately it becomes a chicken and egg situation."

Last week Trafigura, which is responsible for more than 4,000 ship voyages per year, proposed a carbon levy of \$250-\$300 (£195-£236) per tonne of carbon dioxide (CO2) equivalent on shipping fuels to make zero- and low-carbon fuels more economically viable and competitive.

According to Mr Bach Nielsen, the global approach is essential if the shipping industry is to accelerate carbon reduction and maintain a level playing field.

The inclusion of shipping in the EU Emissions Trading System has sparked widespread criticism from industry associations which argue that the proposed move will inhibit global action on reducing CO_2 emissions.

"If the EU implements a regional ETS, shipping risks getting hit by multiple emission trading systems which will make a global MBM (Market Based Measure) much more difficult to achieve," said David Loosley, secretary-general of BIMCO, on October 1.

Although opposed to the EU's trading scheme intention, Mr Bach Nielsen argued that the EU's desire to accelerate decarbonisation action within the International Maritime Organization is something that Trafigura supports.

Without rapid action from within the industry, pressure from shipping financial stakeholders would ultimately start to be affected, he argued.

"Investors have gotten tired of our industry. We don't think that the industry can afford not to take responsibility, We all want to have an investable product — Trafigura wants banks to keep financing us. But if our infrastructure is full of carbon —at a certain point our banks will have to reassess —that's what we're trying to avoid," said Mr Bach Nielsen.

Trafigura's proposal that the IMO introduce what it describes as a "partial feebate" carbon levy system, would require a member state or association to formally raise the scheme within the United Nations agency's structure.

Lloyd's List understands that several small island states as well as larger shipping nations are considering the paper and Trafigura is optimistic that the research will be raised at the IMO next year.

Walls in the Channel? Illegal, immoral, impractical, impossible

IF THE Financial Times was not a publication so steeped in gravitas, one would be tempted to dismiss this week's headline — 'UK considers floating walls in Channel to block asylum seekers' — as another all-too-telling spoof from matchless satirical website NewsThump.

But it soon emerged, to extensive incredulity, that Priti Patel's Home Office really had sounded out a number of industry groupings with exactly that idea.

The story capped a week in which the political kites flown included the internment of refugees on Ascension Island or dumping them on utterly unsuitable disused offshore installations.

It seems those looking for other uses for an outcrop of volcanic rock in the middle of the Atlantic or a mothballed oil rig several hours' helicopter flight time away from Aberdeen need look no further than Whitehall.

The calls are said to have originated in a blue-sky thinking, brainstorming session among civil servants, one of them rejoicing in the threateningly grandiloquent job title of Clandestine Channel Threat Commander.

Shipping trade associations were asked what options exist for 'marine fencing and other water-based technologies that would inhibit passage to UK territorial waters' while at the same time remaining 'rapidly deployable and rapidly removable'.

The use of such devices would be against the law.

As Maritime UK politely pointed out, it would be in flat contravention of the terms of the International Convention on the Safety of Life at Sea, which provides that lives at sea should never be jeopardised in any fashion whatsoever.

It would also entail a torrent of lawsuits emanating from the owners of French fishing boats and pleasure craft, although this is presumably the sort of trifling bagatelle that only breaches international agreements in a limited and specific way.

The use of such devices would be immoral. It is not illegal to cross the Channel in a dinghy and it is not illegal to seek asylum in Britain. As the Maersk Etienne case underlined, human beings do have human rights.

The use of such devices would be impractical. The Channel is quite literally is the world's busiest shipping lane, and the potential for disruption is obviously enormous.

It is not even clear that a Heath Robinson contraption of this ilk is a runner from a technical standpoint. To the best of our knowledge, appropriate equipment has yet even to be devised.

Time and time again — need we mention the Brexit ferry-company-with-no-ferries procurement fiasco and Dominic Raab's unawareness of the centrality of Dover-Calais to UK trade? — this government has revealed itself sometimes clueless about basic shipping realities.

The only thing that could make the demand for a wall in the Channel any more risible would have been the strident assertion that Mexico is going to pay for it. Thankfully, British politics isn't quite there yet.

ANALYSIS

Economic Outlook: Weak oil demand and lower spending hit seaborne trade

GLOBAL seaborne trade fell in the first half of 2020, but the drop has not been as bad as many anticipated.

This has largely been due to China continuing, and at times even increasing, its imports of raw materials. The Asian country has also exported containers at a good pace.

Total seaborne trade globally is forecast to decrease by around 3% this year, compared with 2019, to 11,094m tonnes.

All shipping sectors will record lower volumes, but trade is expected to recover strongly in 2021 with preliminary estimates of a 5% uplift on the current year to 11,667m tonnes.

Most negatively affected this year in percentage terms will be the container and general cargo sectors, down by around 3.7% and 3.8% respectively. In tonnage terms, the liquid bulk market will see the biggest drop of 171.2m tonnes year on year due to the weak demand in the crude oil market.

Overall, the average growth in global seaborne trade in the 2020-2024 period is forecast at 2.4% annually, down from the growth of 3.7% seen yearly in the 2015-2019 period.

Lower economic activity in the world has decreased the demand for oil substantially and it is predicted it will not be back to 2019 levels until 2022.

Brent crude oil spot prices averaged $45 per barrel in August but were down to an average of $42 in late September. That is still $20 per barrel more than when the price crashed in April due to inventories all over the globe filling up.

There are still a lot of crude and products in storage and the US Energy Information Administration expects that the high inventory levels and surplus crude oil production capacity will limit upward pressure on oil prices in the near term.

EIA forecasts monthly Brent prices at $44 per barrel during the fourth quarter of 2020 and an average of $49 in 2021 as oil markets become more balanced.

It estimates that global consumption of petroleum and liquid fuels averaged 94.3m barrels per day in August 2020, down 8.2m bpd from August 2019.

It further estimates that global liquid fuels production averaged 91.5m bpd in August, down 9.7m bpd year on year.

The decline reflects the voluntary production cuts by the Opec-plus group of oil-producing nations along with the reductions in drilling activity and production in the US due to the low oil prices. The EIA expects that global liquid fuels production will rise to 99.3m bpd in 2021.

Energy analyst Platts recently predicted US Gulf crude exports will drop by half over the next six months and bottom out at 1.4m bpd by April 2021, which decreases the tonne-mile demand for tankers.

Before the pandemic, this forecast stood at 4m bpd for the same period. Asia-bound exports to countries including South Korea and China accounted for just over half of all volumes shipped from the US Gulf in the second quarter of the year.

In June 2020, exports were 2.8m bpd, 900,000 bpd below the peak of 3.7m bpd in February,

according to the EIA. Given decreased demand for refined products, refineries also have problems with their margins and cannot pay a higher price for the crude.

For other major commodities, the drop in value has not been as dramatic as has been seen with crude oil. The chart below shows major raw material prices on an average monthly basis from 2007, with forward projections from the IMF included.

In the great recession of 2008-09, prices fell significantly, but from much higher levels. In 2020, the drop has not been so steep, but then prices were not as high before either.

Copper has seen the largest fall and coal prices are still depressed, but almost all other commodities have shown a certain level of resilience to the current economic environment.

VLGC supply-demand balance recovery a year away

VERY large gas carrier supply and demand balance could come under some pressure during the final quarter of the year, but the fundamentals are expected to improve in the second half of 2021, according to Poten & Partners.

However, the key to the short-term supply-demand balance will be crew repatriations. This requires vessels to be diverted to ports that enable crew changes, said consultant Shantanu Bhushan in a webinar presentation.

He noted that about 80 VLGCs, which were delivered during 2015-16, will have surveys due during the last three months of this year and in 2021.

What is more, about 23 VLGCs are expected to undergo retrofitting works during the same period.

"Although not all these vessels are expected to be taken off from active trading simultaneously, it can help balance tonnage supply in short bursts," he said.

Further, the decision by owners to reduce their ballast speeds to around 14 knots and opting to take the longer Cape route to reposition vessels back to the US Gulf from Asia has also provided the much-needed supported to freight rates.

US liquefied petroleum gas exports to Far East Asia accounted for more than half of its total shipments in 2017 and 2018, according to Poten.

However, because of the US-China trade spat, this ratio came down to 46% in 2019.

After Chinese companies were given waivers for imports from the US, the ratio is again expected to improve.

Mr Bhushan said the downside to this expectation may stem from the recent strain on relations between the two countries.

Zahid Afzal from the business intelligence team in Poten estimates global LPG consumption will surge by 15% between 2020 to 2025.

"Asia-Pacific is expected to remain the biggest demand centre for LPG in the forecast period," he said, adding that China and India will account for more than 60% of the region's LPG consumption.

But the demand from both countries has been declining owing to the coronavirus backdrop, he added.

"Countries such as Vietnam and Bangladesh are showing tremendous growth in consumption, offsetting some of the slack in major consumers."

Petrochemical expansions will also increase LPG consumption in Japan, South Korea and Thailand by 10-15% in the next five years, Mr Afzal said.

Meanwhile, demand in Indonesia is expected to increase by only about 6% in the next five years compared with 25% in the past five years as the country turns its focus toward expanding natural gas consumption.

MARKETS

Norway pioneers flexible fuel cell technology to cut emissions by 40%

A NEW pilot project involving "flexible" fuel cell technology being developed in Norway claims that emissions from shipping can be cut by 40% to as much as 100%.

The new system, which allows different types of fuel to be used, including green ammonia and liquefied natural gas — allowing fuel choice based on availability — will first be tested at the sustainable energy catapult centre in Norway with a 1.2 megawatt prototype fuel cell, before installation on board one of Odfjell's newest chemical tankers.

The main partners in the project are Odfjell, with expertise in global shipping, Prototech, which is active in fuel cell technology advances, maritime technology company Wärtsilä, and Lundin Energy Norway, which focuses on the oil and gas sector.

The project, which is funded by the four companies as well as state enterprise Gassnova and research council of Norway, was presented to the country's prime minister Erna Solberg during a ceremony celebrating an expansion of the centre this week.

"Our tests show a CO_2 reduction of as much as 40%-45% when using LNG, compared with current solutions," said Prototech's chief executive Bernt Skeie in a statement, adding that the system will be ready to operate "completely emission-free" from locations where, for example, ammonia is available for bunkering.

"Increased efficiency and reduced fuel consumption also provide significant cost savings, and the ship will be able to sail significantly longer on the same amount of energy," he said, adding that the technology also enables direct capture of CO_2, which will be another alternative for emission-free operations when logistics for CO_2 management become available.

Odfjell's vice-president of technology Erik Hjortland said the fuel cell project was one of the paths it was following to ensure "environmentally efficient operations regardless of fuel changes that may occur in the years ahead".

"Ships are to be operated for 20-30 years, and we need flexible solutions that can meet future emission requirements," he said.

Wärtsilä's technical director Ingve Sørfonn said: "The new energy solution has the potential to take us a big step closer to the goal of climate neutrality."

He added: "Fuel flexibility will be a significant contribution to secure future solutions for new ships. And it does not stop with ships, this solution can also be used in offshore oil and gas operations."

Harald Solberg, head of the Norwegian Shipowners' Association said that in the long-run, scaling up such solutions will be "of great importance in achieving our climate goals, they will have business value, and they can create new jobs in Norway".

Centrica agrees long-term LNG supply contract

CENTRICA, a UK-based multinational energy firm, has signed an agreement for the long-term supply of liquefied natural gas to Shanghai-based Shenergy Group.

The sales-and-purchase agreement, spanning 15 years, is for the supply of 500,000 tonnes of LNG each year. Deliveries will begin in 2024.

It is the first long-term offtake Centrica has secured from China, the London-listed company said in a statement.

Shenergy imports LNG through two terminals in China's Jiangsu province.

It owns a 55% interest in the 3m tonnes per annum Yangshan LNG terminal.

Yangshan has undergone a second phase of development, to boost its storage from this year by another 400,000 cu m to 895,000 cu m.

Shenergy owns the second terminal at Wuhaogou, which handles transhipments and features 320,000 cu m of tank storage.

IN OTHER NEWS

Cyber attack: IMO restores some access though key systems still offline

THE International Maritime Organization has said it shut down some key IT systems after a "sophisticated" cyber attack brought down its website and web-based servers.

It has said it is working with the UN International Computing Centre and security experts "to restore systems as soon as possible to identify the source of the attack and further enhance security systems to prevent recurrence".

Away from the most significant disruption, it said its internal and external email systems continued to function, as did its KUDO virtual meetings platform.

Call for tighter controls after virus outbreak on bulker

THE state government of Western Australia is looking at tightening restrictions for ships entering the state after an outbreak of coronavirus on a bulker off Port Hedland.

Seventeen of the 21 crew of the Oldendorff Carriers vessel Patricia Oldendorff tested positive after arriving from Manila.

It has since emerged that while the Filipino seafarers were quarantined in a hotel, officers were allowed to isolate at home before boarding.

Euronav returns $200m to shareholders

EURONAV has paid back $200m to shareholders in just over three months.

The New York- and Brussels-listed crude tanker owner said it has delivered $100m in share buybacks and has allocated another $100m in dividend payments to shareholders, in line with its strategy.

The oversupply of oil early in the year and the crash in oil prices that boosted the case for floating storage propelled Euronav's profits to historic highs.

StealthGas adds to Japanese-built LPG fleet

LIQUEFIED petroleum gas carrier owner StealthGas has added two Japanese newbuildings to its LPG fleet.

The vessels were both ordered privately before being acquired by Nasdaq-listed StealthGas.

The deliveries bring the StealthGas fleet of mainly smaller LPG carriers to 48, plus four tankers.

Thome and Carsten Rehder to form joint venture

THOME Group, the Singapore-based shipmanager, has agreed to form a joint venture with German shipowner Carsten Rehder.

The venture, to be called Thome Shipmanagement Germany, will manage Carsten Rehder's fleet of dry bulk, container and multipurpose vessels and will take on its staff.

"Entering into this collaboration with the Thome Group makes sense as the German and international shipping markets have changed over the past 10 years," Carsten Rehder managing director Thomas Rehder said in a statement.

UK offers funding to ports as EU exit looms

THE UK government has opened bidding to its £200m ($259m) Port Infrastructure Fund as it makes a last-minute effort to prepare supply chain infrastructure for the end of the Brexit transition period.

"With just three months to go until the end of the UK transition period, businesses need to prepare now for the new procedures that will come into place whether or not we reach a trade agreement with the EU," said cabinet minister Michael Gove, who is responsible for Brexit planning.

The government said new infrastructure would be needed at ports and that the fund would be targeted at ports that had available space ready to accommodate the new customs requirements under the new Border Operating Model.

WSC reshapes board as it marks 20th anniversary

WORLD Shipping Council chairman Ron Widdows is to stand down at the end of the year as the organisation prepares to expand its board of directors.

Mr Widdows, a container shipping veteran who was formerly chief executive of Neptune Orient Lines, has held the role since 2008.

The organisation, which represents the interests of the major container lines and which is celebrating its 20th

anniversary, said it would expand its board of directors to engage more members in shaping its policy positions.

Aegean signs with Cosco Heavy for aframax tankers

AEGEAN Shipping has gone back to the Cosco Heavy Industry with orders for up to three aframax tankers.

The firm order for two tankers represent the ninth and 10th consecutive newbuildings ordered by Aegean with the Cosco Group in the last four years.

Six of these have been kamsarmax bulkers ordered at the Cosco Zhousha facility by the Greece-based owner's other arm, Aegean Shipping Dry Bulk.

Classified notices follow

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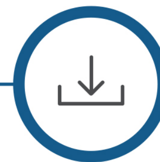

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