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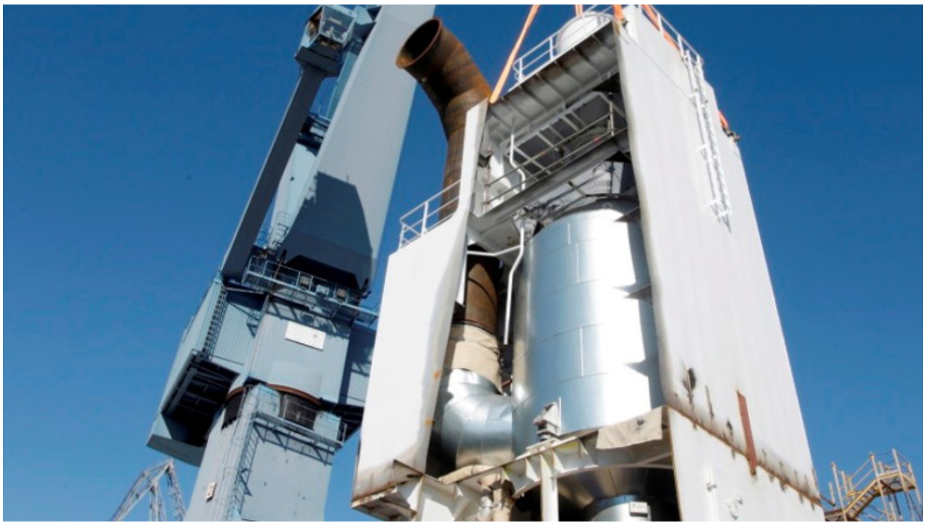
Widening fuel spreads will benefit scrubber users



THE PRICE SPREAD between very low sulphur fuel and high-sulphur fuel oil is widening once again, adding benefits to scrubber users.

While the current spreads are significantly higher than where they were in mid-2020, they are well below levels seen before the coronavirus pandemic sapped demand.

Wood Mackenzie expects fuel spreads to continue to widen in 2021, although modestly, as oil demand recovers and the HSFO crack spread, or differential to oil, grows.

Its head of refining, chemicals and oil Alan Gelder said that, according to his calculations, the VLSFO-HSFO differential is estimated to widen to $150 per tonne on average for the fourth quarter of 2021, and remain around that level in 2022.

“The higher demand for oil products requires higher crude runs in less sophisticated refineries (that have a higher yield of fuel oil) with a heavier global crude slate,” he said, as the Organisation of the Petroleum Exporting Countries plus co-operating non-members increase supplies of medium and heavy crude to maintain a balance in the global oil market.

Fuel spreads were narrow in 2020, when HSFO in Singapore, at times, was priced at a premium to Brent crude oil, as it was in such tight supply, according to Woodmac.

However, VLSFO was one of the “best performing” refined products during 2020 based on its crack spread, in comparison to transport fuels such as gasoline and diesel, resulting in the VLSFO-HSFO spread weakening to below $55 per tonne for the November 2020 monthly average in Singapore.

For the fourth quarter of 2020, VLSFO averaged a premium to HSFO of about $60 per tonne in Singapore.

As of last week, the differential was at $93 per tonne.

The fuel spread in Fujairah was at about $103 per tonne, while in Houston, it was at $88 per tonne and in Rotterdam, it was at about $83 per tonne.

Jefferies said that in the coming quarters, the fuel spread will widen as the global economy recovers, oil prices increase, and bunker fuel oil demand rebounds, “making scrubbers great again”.

The US bank said in a note that 3,700 scrubbers have so far been installed, 1,900 of which were fitted last year. That represents about 20% of the global fleet on a deadweight tonnes basis.

The price of VLSFO has been much lower than expected in 2020 due to the effects of the pandemic, with falling oil prices, excess middle-distillates such as jet fuel, and lower demand for fuel oil by the shipping industry, due to a slowdown in the global economy.

The VLSFO-HSFO fuel spread began 2020 at more than $300 per tonne, and stood at about $85 per tonne in late December.

Statistics from classification society DNV GL, which has the biggest number of scrubbers on its vessels at 700, show that 4,572 are currently registered, comprising those in operation or on order. At the end of 2020, that figure was 4,389. The largest share, about 1,600, was for bulk carriers, followed by containerships at 952.

Eagle Bulk’s chief executive Gary Vogel said late last year that with crude oil at $50 per barrel, the fuel spread had increased to about $100 per tonne on average for 2021 and 2022, which, based on the company’s conservative estimate, would translate to $21m in revenue generation per year.

Last year, Cleaves Securities had calculated that with a spread of $100 per tonne, it would take 2.9 years to recoup the investment in a scrubber for a very large crude carrier and 4.3 years for a suezmax. When the price spread exceeded $300 per tonne, the payback time was reduced to less than a year for a VLCC and just over 12 months for an aframax tanker and capesize bulk carrier.

Shippers warned to prepare for bunker surcharge increase

SHIPPERS were spared the worst impacts of the introduction of new low-sulphur fuel regulations last year due to a collapse in the price of oil following the outbreak of the coronavirus pandemic.

But as economic recovery continues and demand for oil returns alongside cuts by major oil producing countries such as Saudi Arabia, bunker prices are on the rise again.

After a dramatic fall in March and April that brought down the price of both heavy fuel oil and very low sulphur fuel oil, and all but obliterated the spread between the two fuels, bunker prices increased and stabilised at a level of around $290 per tonne for IFO380 and around $340 per tonne for VLSFO.

“This level was quite stable for the period June to early November. However, since then, the fuel price has begun to increase significantly,” Sea-Intelligence said.

VLSFO increased 35% from November 1 to January 8.

Due to the varying way carriers implement bunker adjustment factors, either quarterly or monthly, there will be a delay before the impact of higher prices are felt by shippers.

“When the adjustment is made monthly, it is usually based on the monthly average fuel price, with a two-month time lag,” the analyst said. “Some carriers make quarterly adjustments, which in practice often means that, for example, second-quarter bunker adjustment factors that are applicable in April-June would be based on the average fuel price in December-February.”

The result was that although oil prices have begun to rise again already, bunker adjustment factors in place are based on earlier lower prices. The prices on which bafs are calculated for the second quarter, however, have increased significantly.

As well as an increased overall fuel cost, carriers also face a larger spread between high- and low-sulphur fuel again, swinging the balance back in favour of those who have invested in scrubbers.

"Following the initial spike driven by implementation bottlenecks for IMO2020, the premium [for VLSFO] fairly quickly stabilised around $50 per tonne for a period of nine months," Sea-Intelligence said. "However, from mid-November we now see a significant continued increase, and the low-sulphur premium is now at $86 per tonne."

This means that carriers will see an improvement in the relative value of the scrubber installations, allowing them to use cheaper high-sulphur fuel.

"But it also means that we might begin to see a rekindling of the discussion as to whether bunker adjustment factor formulas should take the scrubber-enabled vessels into account, especially on the Asia-Europe trade, where many vessels have had scrubbers installed."

WHAT TO WATCH

Capesizes lead dry bulk gains

CAPESIZE spot rates have continued to surge, gaining 47% in the past week to reach a three-month high.

The average weighted time charter on the Baltic Exchange was at $24,507 per day at the close on Monday. That is the highest level since October 12.

The gains led the Baltic Dry Index to a three-month high, at 1,761 points.

According to Cleaves Securities, "a perfect storm" was brewing in the capesize market, with "healthy enquiry and limited availability in both basins, combined with bad weather in Chinese discharge ports and upwards pressure in the futures curve".

The Baltic Exchange noted the apparent surprise in the market at these levels as the first quarter is usually weak.

"Activity heated up from the middle of the week before exploding higher on Friday off the back of a heated Brazilian market," the London-based exchange said in a note at the end of the past week. "While major charterer Vale was said to be absent, rates have climbed quickly on prompter requirements scrambling to cover".

Additional pressure came in the form of the futures curve, which has pushed up, based on market expectations for the year, it said.

Brokerage Braemar said the futures curve seems to be pricing in "only modest falls in value" over the next few months.

Indeed. January was priced at $19,350 per day as of Friday, up from $17,500 the day before, according to GFI broker figures. February was assessed at $14,000, while the first quarter was quoted at $15,500.

Iron ore futures were at about $150 per tonne for June 2021, incentivising Australian producers in particular "to sustain high levels of output", Braemar said in a recent note. "Concerns about oversupplying the market appear remote at this time".

With supply problems persisting in Brazil, Australia remains "the driving force" in the capesize market currently, it said, adding that the C5 Australia to China route is thus holding an almost $9,000 per day premium to the C3 Brazil to China voyage.

In addition, poor conditions in China were contributing to congestion and supply tightness in the Pacific basin.

Adverse weather was one to watch as "cyclones in Western Australia and the rainy season in Brazil have done far more to restrict iron ore output over the past two years than so-called 'black swan' events, such as the Brumadinho dam collapse and coronavirus-related issues," the brokerage added.

The panamax market also saw gains, with the average weighted time-charter on the Baltic Exchange closing Monday at $14,581 per day, up 19% from January 4.

The exchange said in a note that more than 30 vessels had been fixed in recent days for arrival in the first-half of February as the east coast of South America led the drive in the Atlantic basin.

"Healthy demand elsewhere in the Atlantic, pitched opposite a tight tonnage supply, compelled to add support to rates," it said.

ANALYSIS

China continues to lead tanker markets

CHINA'S state-owned traders and refiners accounted for more than one fifth of dirty spot cargoes shipped on very large crude carriers in 2020, an indication of the country's continuing dominance in the tanker market against the backdrop of the coronavirus.

Alluding to this finding in its annual ranking for tanker charterers, ship brokerage Poten & Partners noted that Unipec, the trading arm of China's biggest oil refiner Sinopec Group, controlled 18% of total dirty spot cargoes, or 211,147 tonnes last year, up from 17% in 2019.

Unipec also retained its crown as the top tanker charterer in the VLCC segment, with 966 of the estimated fixtures. These comprised more deals than the next 12 largest charterers of these vessels combined.

Its compatriots PetroChina and Sinochem ranked 12th and 14th respectively, with 22,765 tonnes and 20,710 tonnes of crude oil spot cargoes shipped.

These three big three Chinese importers and others accounted for over one fifth of 1,172,278 tonnes of dirty spot cargoes shipped in 2020

By Poten's estimates, spot market activity went down by 16% in the pandemic-hit year.

But Unipec has strengthened its lead because the coronavirus backdrop has not affected China in the way it has affected Europe, the brokerage noted.

Unipec also ranked third and fourth on Poten's leader boards for the suezmax and aframax segments, which accorded rankings to charterers based on their number of fixtures.

Brazil's national oil company, Petrobras, and Saudi Arabia's shipping firm, Bahri, are two other state-owned players to have achieved significant progress in the rankings.

Petrobras moved to third from fifth on the VLCC leading charterer board. It also entered the top 10 for the first time in the rankings for suezmax charterers, ranking seventh, putting it ahead of supermajors BP and Chevron.

Bahri emerged the eighth most active VLCC charterer on the spot market as Saudi spot fixtures surged in March and April.

Saudi Arabia, which has been engaged in an oil price war with Russia ignited over disputes about proposed crude production cuts, had ramped exports at one juncture during the first half of the past year

Indian Oil Corp is another charterer to have progressed in the rankings. The refiner, which is rated as the largest fuel retailer in India, emerged as the fourth most active VLCC charterer on the spot market. It ranked second on the suezmax leader board, up from sixth and just behind ExxonMobil in the past year.

On the whole, reported suezmax spot fixtures fell 23% on-year to 2,055 in 2020, according to Poten.

MARKETS

Aon launches fuel insurance hedge policy for shipping

LEADING insurance broker Aon has launched a new fuel product, aimed primarily at the shipping industry, which will allow bunker consumers to buy cover against rising fuel costs.

The policies, which will be underwritten by an asset-backed captive, will be activated if the cost of fuel exceeds an agreed limit, paying out the difference between the agreed price and the higher price.

While there are numerous existing derivatives to hedge fuel price risk, Aon argues that its product — which it believes to be the first of its kind — is likely to prove attractive to operators large and small.

Among the advantages are monthly instalments, which will be tax deductible, rather than the full payment up front seen with many other instruments.

Shipping is likely to make up two-thirds of the client base, said Aon's head of marine Chris Bhatt, with other users potentially including aviation, construction, mining and energy.

Mr Bhatt said the inspiration for the policy had come from the International Maritime Organization sulphur cap, which was rolled out at the start of 2020 and which had tended to increased fuel costs for operators choosing low sulphur fuel oil, rather than exhaust gas scrubbers, to meet the stipulations.

"We have seen a fairly significant uptick in costs for operators over the past 12 months and margins are still thin in the industry," he said in an interview. "There is a need for people to protect themselves further against spikes or fluctuations in fuel prices."

For many, insurance will feel more natural than futures and options, and comes without the regulatory hassle of compliance with the Markets in Financial Instruments Directive, known colloquially as 'mifid'.

Pricing will be negotiated individually, and will depend on the volume of fuel insured, the term of the cover and the trigger price at which cover kicks in.

However, it will be sufficiently flexible to suit both companies chartering individual vessels for short periods of time and those operating substantial owned fleets, Mr Bhatt promised.

The cover will initially be available for all currently-trade oil-based fuel grades, and can be extended to take in new non-oil fuels as they become commercially available.

"We would like to think of this as assisting the industry with a transition to greener fuels.

"It is also about balance sheet protection. If you are a smaller operator without the sophistication to go into the fuel purchasing strategy markets, this provides a low cost, predictable method."

Even for larger concerns — including those with their own captives or even their own in-house oil trading teams — may find the offering complementary to existing arrangements, Mr Bhatt added.

IN OTHER NEWS

Relief for crew of bulker stranded off China for six months

THE 23 Indian seafarers stuck on board Great Eastern Shipping dry bulker *Jag Anand* will finally be able to carry out a crew change and head home after the vessel, which had anchored off a Chinese anchorage for months, was allowed to sail for Chiba in Japan.

"We are pleased to inform you that 23 seafarers of the ship *Jag Anand* are lifting anchor, this very moment, and are cleared to sail and will arrive at Chiba, Japan on January 14," said a joint press release from the National Union of Seafarers of India and the Maritime Union of India. The unions expected that Mediterranean Shipping Co-owned Anastasia, also with Indian seafarers on board, would be similarly released "very soon".

The total of 39 Indian crew on the two ships have been stuck at Chinese anchorages for more than six months and some of the seafarers have been on board for more than 18 months.

Yangzijiang wins orders for four ultramax newbuilds

CHINA'S Yangzijiang Shipbuilding says it has won orders for four ultramax dry bulkers from Bangladeshi conglomerate Meghna Group.

The 66,000 dwt vessels are based on the wide beam, shallow draft "neo series" designed by Mitsui E&S Shipbuilding. They will be built by Jiangsu Yangzi-Mitsui Shipbuilding, a 51-49 joint venture between the Chinese builder and its Japanese partner.

Delivery of the tonnage, to be classified by ClassNK and flagged in Bangladesh, is scheduled for between the second half of 2022 and first half of 2023.

US retail sales drive cargo imports to record levels

US CONTAINERISED imports for 2020 appear likely to establish a new record despite the coronavirus backdrop and are projected to remain high heading into the beginning of 2021, according to retail sales experts.

"Consumers and retailers once again proved their resilience in the face of unprecedented challenges," said Jonathan Gold, vice-president for supply chain and customs policy at the National Retail Federation.

"Thanks in part to government stimulus, retail sales saw strong growth during 2020, even with the pandemic, and import numbers show retailers expect the economic recovery will continue during 2021," Mr Gold said.

Lloyd's Register assembles decarbonisation advisory panel

LLOYD'S Register has named influential industry figures as appointees to its decarbonisation hub's advisory panel.

The UK classification society said the board will comprise five individuals from industry, government and non-governmental organisations to help ensure that the hub meets its goals.

They include Ole Graa Jakobsen, head of fleet technology at Maersk, Tom Stag, senior vice president for maritime affairs at Carnival Maritime, and Damien Speight, Orsted's head of markets.

IMO appoints Hoenders as emissions policy chief

THE International Maritime Organization has named Roel Hoenders as its new chair for air pollution and energy efficiency.

Mr Hoenders had been serving as acting head since early 2020 following the departure of Edmund Hughes.

The department is responsible for assisting with the implementation of the organisation's initial greenhouse gas strategy, arguably the single biggest priority for governments.

US designates Yemen's Houthis as a terrorist group

THE outgoing Trump administration is to designate Yemen's Houthi rebels as a terrorist organisation in a move that will likely make it harder to deal with the "floating bomb" tanker *Safer* in the Red Sea.

Secretary of State Mike Pompeo said the move was to hold the Houthis, also known as Ansarallah, accountable for terrorist attacks, including against commercial shipping.

It cuts off financial support through US banks and other institutions. But US media called it mostly symbolic, since the Houthis are backed by Iran, which is already heavily sanctioned.

Classified notices follow

NOTICE OF SALE

IN THE HIGH COURT OF THE
HONG KONG SPECIAL ADMINISTRATIVE REGION
COURT OF FIRST INSTANCE
ADMIRALTY JURISDICTION
ACTION NO. 62 of 2020

NOTICE UNDER ORDER 75 RULE 22(3) OF
THE RULES OF THE HIGH COURT OF HONG KONG

The ship or vessel "ANGELIC GLORY"

NOTICE IS HEREBY GIVEN THAT:

(1) the ship or vessel "ANGELIC GLORY" has been sold on 5 January 2021 by order of the Court in an action in rem against the vessel in action HCAJ 62 of 2020;

(2) the gross proceeds of sale of USD 4,330,000.00 for the ship or vessel, and USD 95,044.75 for bunkers, have been paid into court;

(3) the order of priority of the claims against the said proceeds will not be determined until after the expiration of the period of 30 days from, and including, 5 January 2021; and

(4) any person with a claim against the ship or vessel "ANGELIC GLORY" or the proceeds of sale thereof, on which he intends to proceed to judgment should do so before the expiration of that period.

(S. KWANG)
Registrar
High Court
5 January 2021