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Tanker earnings downgraded for 2021 to half of cash breakeven levels

FORECASTS SHOW 2021 spot earnings for the global fleet of crude and product tankers will average rates that would be around half the levels needed to break even as oil tanker demand growth contracts by 6.4%.

The downgraded estimates from Norwegian investment bank Cleaves Securities sit alongside a series of gloomy assessments for the global fleet of oil tankers, with much of the pain to be front-loaded into the first six months.

The contraction in oil tanker demand is the first since a 2.5% drop in 2016, and the second-largest since the 7.7% reduction in 2009, Cleaves said.

Lockdowns across Europe and the US, alongside refinery turnarounds and closures, have slashed shipments of crude and refined products in December and January, keeping earnings below operating costs on many key routes.

The new wave of coronavirus cases has arrested the nascent recovery in demand growth for transport fuels of gasoline, diesel and jet fuel, which account for about half of crude oil demand.

“The need for seaborne oil transportation is negatively affected by lower petroleum supply and destocking of petroleum inventories,” said Cleaves in a report on the tanker sector published this week.

This “temporary deterioration of petroleum inventory drawdowns” meant Cleaves reduced its petroleum supply forecast for 2021 to 95.7m barrels per day, from prior estimates of 97.2m bpd.

"This has a profound negative impact on our oil tanker earnings," the bank said.

However, Cleaves said oil tanker demand growth would rise to 7.5% in 2022 as oil supply increased and with "the destocking cycle potentially unwinding towards the end of 2021". Cleaves estimated that the oil tanker fleet's "effective carrying capacity" in 2020 was at 590m dwt.

Latest cash-breakeven rates for the global trading fleet of some 850 very large crude carriers were put at $26,905 daily by Cleaves.

That compares with current one-year time charter rates of $24,125 daily for a very large crude carriers and Cleaves' 2021 forecast of average spot earnings of $13,000 daily.

Suezmax tanker spot rates were forecast to be at levels equivalent to $10,600 per day, while the cash breakeven level for a five-year-old vessel was estimated to be 95% higher, at $20,708 daily.

Aframax tanker spot earnings would average 57% of cash breakeven levels of $17,684 daily, according to new estimates.

The fleet of some 1,700 medium range product tankers was estimated to achieve average spot rates of $8,558 daily in 2021, 40% below what was needed for a five-year-old ship to break even.

Cleaves forecast oil tanker scrapping would reach 13m dwt in 2021, compared with 3m dwt in both 2019 and 2020.

Global demand for diesel and gasoil contracted by 15% in the third quarter of 2020, the most recent statistics from the Joint Organisation Data Initiative show. Jet fuel demand was 52% lower than in the year-ago period.

However, further lockdowns have again seen demand plunge over the fourth quarter and into January, with crude shipments to refineries slashed, especially in Europe and the US.

Preliminary December crude imports to the UK, which began lockdown restrictions that month, totalled 720,000 bpd on 35 aframax tankers according to data from Lloyd's List Intelligence. That compared with 930,000 bpd on 48 ships for the prior-year period, data show.

The demand drops in the UK — a key consumer of gasoline — are typical of those seen across Europe and are compounded by refinery turnarounds and closures.

Refineries with total capacity of 16m bpd are said to be offline over the first quarter of 2021 because of outages or planned maintenance.

Unprofitable margins already also saw 17 refineries totalling 2m bpd of distillation capacity announce closures in late 2020.

These lower utilisation rates, alongside higher onshore inventories of refined products and falling demand for transport fuels on a month-on-month basis also translated to bottoming product tanker rates.

Despite additional refineries opening in China and a swifter economic rebound seen for countries east of the Suez Canal, Cleaves does not forecast any gains in tanker earnings until the second half of 2021.

Adding to the gloomy outlook, Alphatanker projects US crude exports at 2.5m bpd this year, with shipments from the US Gulf to Europe on aframax tankers "to drop significantly in 2021".

The research arm of shipbroker BRS said exports from the refining and energy hub averaged 2.9m bpd in 2020, suggesting that the equivalent of at least one aframax tanker daily would be removed from the market this year.

Crude imports to China — on VLCCs — would remain strong as additional refinery capacity signalled not only stronger demand for crude, but also rising exports of refined products, according to Alphatanker. Last year refined product exports from China averaged 1.3m bpd, it said.

WHAT TO WATCH

Marine insurance expert warns of very expensive year for owners

SHIPPING companies can expect not only double-digit rate rises for both hull and protection and indemnity insurance, but tenfold increases in premiums for non-marine corporate cover as well, according to the head of marine at major broker Aon.

In particular, Chris Bhatt highlighted directors' and officers' liability insurance, where the market is currently described as 'harder than hard' on account of the uncertainty caused by the coronavirus pandemic.

D&O cover provides protection for company managers for liabilities arising from decisions and actions taken within the scope of their regular duties.

This now forms part of company risk management strategy for companies of all descriptions. While not marine insurance as such, it forms part of the annual insurance outlay for many shipping concerns.

Average increases in the D&O market are currently running at between 100-500%, and sometimes up to 1,000%, Mr Bhatt claimed.

"Looking at clients in the totality, as we do, you might get a client who gets a 5% increase in their hull rate. But that could be coming on the back of a 200% increase in their D&O premium," he said.

"It still feels like a lot of money, if you look at insurance as a spend, rather than just the hull on its own. So it could be a very expensive year from an insurance perspective."

Mr Bhatt's expectation for hull and machinery premium increases is in the 10-20% bracket, in line with most projections made by hull insurance sources in Insurance Day, the sister publication of Lloyd's List.

Those comments apply to clean tonnage. There will be extensive adjustment by loss records, with owners whose records are deemed adverse likely to find themselves asked for even more than that.

Marine hull has been a perpetual loss-maker for the past two decades, and recent years have been marked by the sentiment that firmer pricing was only a matter of time.

Rising reinsurance rates have also put pressure on primary writers to increase prices.

The only consolation is that the worst is probably over, with Mr Bhatt commenting: "Hull rates will probably stabilise a bit from the increases we have had."

P&I is in the throes of the 2021 renewal round, which is heading for its annual deadline on February 20. The majority of International Group affiliates are seeking increases in the range of 5-10%.

The clubs' justification is the real-terms erosion of rate levels over many years, combined with falling investment returns in a period in which markets were impacted by coronavirus, which will see free reserves take a hit.

There has also been spate of major casualties that has seen pool claims for the first six months of the current year hit an all-time high for the halfway stage.

As a broker, Aon's job is to cut the best deals for its clients, and will inevitably try to beat the prices down. But Mr Bhatt conceded that at least part of the rate hikes will stick.

"We will see that dialogue right up until February 19 and who will blink first. [The clubs will] get some of it, maybe not all of it."

Deal with Pistiolis heralds VLCC debut for TOP Ships

TOP Ships, the Nasdaq-listed tanker owner, has increased its interest in large crude oil carriers in a complex part-exchange deal with chief executive Evangelos Pistiolis.

The move has seen Mr Pistiolis acquire three eco-design medium-range product tankers that previously had been scheduled for delivery to the public company over the next few weeks from Hyundai Mipo Dockyard in South Korea.

Lloyd's List has confirmed that the trio of 50,000dwt tankers, all fitted with exhaust gas cleaning systems, have already been privately flipped to fellow Greece-based owner Eastern Mediterranean Maritime for an undisclosed price.

In return, TOP Ships acquires a suezmax tanker newbuilding and 35% ownership stakes in each of two new very large crude carriers being built for Mr Pistiolis' private concern, Central Mare.

The deal heralds TOP's first-ever involvement with VLCCs.

In addition, the company's compensation for the three MRs includes a $10m cash payment, forgiveness of a $1.2m debt to Mr Pistiolis' company, and an option for a credit line of up to 10% of the shipbuilding costs at market terms.

The deal was approved by TOP Ships' transaction committee comprised of independent directors, that obtained a fairness opinion on the transaction from an outside advisor.

Mr Pistiolis told Lloyd's List that the transaction reflected a more general turn towards larger vessels and, secondly, a financing gap for the three MRs.

The deal was intended to "make life easier for TOP Ships." The public company now has no imperative financing needs "for about a year or more," he said.

The two VLCCs were ordered by Mr Pistiolis last year at Hyundai Heavy Industries and they have both been chartered by a major oil trader for periods of three to five years starting from delivery, scheduled for January and February 2022.

Both VLCCs will be constructed with scrubbers.

The scrubber-fitted suezmax that will be built at the Hyundai Samho shipyard is also due for delivery in February 2022 and has a charter for at least five years to a company affiliated with Mr Pistiolis.

In recent years TOP Ships has concentrated mainly on MR tankers but lately has looked towards larger tankers.

Prior to this transaction, it owned four suezmax tankers in addition to six MRs on the water.

Separately, Eastern Mediterranean's founder and managing director Thanassis Martinos confirmed his company's acquisition of the three newbuilding MRs, formerly for TOP Ships.

Eastmed controls a diverse fleet of bulk carriers, containerships and tankers, already including 12 MRs, of which seven were constructed by Hyundai Mipo.

Mr Martinos, who declined to put a price on the triple purchase, said that Eastmed had recently sold eight older ships and the acqwuisitions should be seen as a case of fleet renewal.

ANALYSIS

Maersk's new Asia Pacific head eyes customer longevity

A LOGISTICS veteran with two decades of experience, Ditlev Blicher is facing an opportunity to strut his stuff in Danish shipping giant Maersk.

The former Asia Pacific chief executive of DB Schenker is now heading his new employer's business in the same region at a critical but interesting time.

The ambitious transformation of the world's largest container shipping carrier into a full logistics provider is accelerating and starting to bear fruit. At the same time, the process is teeming with challenges, some of which have never been experienced by the industry before.

For example, the coronavirus crisis.

While carriers are cheered by the boom in the freight market and profits, which have been surprisingly catalysed by the pandemic since last summer, they also have a lot to worry about.

With the rocketing rates, cargo owners' hackles are raised, and complaints of market manipulation by the shipping lines are mounting. More importantly, perhaps, for those with a longer-term vision, to envisage a more flexible logistics system in a world where black swan events appear to be increasing.

Mr Blicher says he has great empathy with the angry shippers at the moment.

"It wasn't many months ago that I was on the other side of the story," the Singapore-based executive tells Lloyd's List in an interview. "But the real answer is that it's a demand-driven situation."

Neither carriers nor shippers had expected that consumers would splurge on goods with the support of government cheques and restrictions on travelling, analysts have said. And the cargo logjam and equipment shortages caused by the virus disruptions have exacerbated the imbalance between supply and demand of carrying capacity, Mr Blicher explains.

Maersk, however, is not profiteering in such market conditions.

The surge in freight rates has been exaggerated, or at least is not reflecting the real shipping costs of many shippers, he says.

The “incredibly high quotations” being floated and reported in the market are mostly used to cater to ad hoc demand, while the bulk of Maersk’s shipments are moving on contracts at much more reasonable prices that were agreed on previously.

Now the company is taking a “completely different” approach to negotiating contracts this year.

“Normally, in a situation like this — and I know this again from being on the other side of the table — you would say ‘Oh, this is what demand and supply are going to be, and therefore rates are going to shoot up, and therefore Mr Client, you’re going to have to pay me a lot more.’

“Our object right now is not to cash in for a rainy day, but to focus on providing reliable, flexible and digital experience to customers,” says Mr Blicher.

That is because earning longevity of relationship with clients has become much more crucial. It’s key to Maersk’s ambition to offer end-to-end services, which requires time and improvement of customer experience.

Customers are currently irritated not just by the soaring rates, but also by carriers’ poor services that have worsened against the pandemic backdrop.

Global schedule reliability, for example, has dropped to around 50%, although many factors — such as the severe congestions at ports and on roads — contributing to the results are out of shipping lines’ control.

But such chaos is an exact reflection of the sticking point for container logistics, the fragmentation, says Mr Blicher.

“Our clients have to deal with a lot of different players in order to manage their supply chain. And this is a weakness that we’ve seen in particular with the Covid impact.”

This is also where Maersk pledges to make a difference, and of course, investment in order to connect the dots.

The company has already invested heavily in human capital and physical assets to expand its service bandwidth. Acquisitions in 2020 included KGH Customs Services, a pan-European customs services provider, and Performance Team, a US-based warehousing and distribution company, to name just two.

“We’re looking to accelerating that this year and the following year, so there will be a drive around acquisitions to buy in additional capabilities,” Mr Blicher says.

Strengthening its digital platform is another indispensable effort.

With a string of applications released last year, such as the supply chain management tool Maersk Flow, Mr Blicher says more are to be expected to enrich the functionality of Maersk.com, the company’s central digital platform.

“From the 3PL point of view, I know with a hand on my heart, which software solutions are the platinum level. I am really impressed with what we’re going to bring to market over the coming months.”

None of these measures, however, would guarantee a prospect of prosperity, as integrating a fragmented sector would also require the collaboration of other stakeholders.

While equally important efforts, such as those in the blockchain applications, have been made by Maersk on that aspect, headwinds remain.

One case in point is that as the integration strategy progresses, the inevitable extension of the shipping major’s reach into the freight forwarders market has created a conflict of interest by cutting business of its clients.

This was highlighted by last year’s move of the Copenhagen-headquartered giant to unfold Damco’s forwarding services into its own offerings and the subsequent confrontation with DB Schenker, Mr Blicher’s former employer.

The new Maersk APAC head, nevertheless, shrugged off the concerns.

"The competition is more exciting to read about in the news, but honestly, I think there's much more basis for collaboration," he says.

"If industry players can work together to agree on standards and a common language, that will really bring our industry a long way forward."

Mental hygiene: The science behind seafarer resilience

MENTAL health has been in the shadow of physical health throughout the pandemic.

There are several reasons for this, the most obvious being that it's easier to assess a persistent cough caused by coronavirus than it is to assess the impact on the human mind of lockdown that is a consequence of a global pandemic.

It is also becoming clear that professionals throughout the maritime sector are suffering from stress linked to the health crisis.

The headlines have understandably focused on seafarers unable to leave their ships after contracts have terminated and others unable to join their ship to start paid employment.

But the impact on mental health has also had a significant impact on shore staff, working relentlessly via online platforms to keep seafarers moving to and from ship.

If nothing else, the issue of mental hygiene has been pushed much higher up the agenda for companies in crew management, vessel operations, seafarer organisations and shipowner associations.

However, such issues pre-date coronavirus and will last long after the pandemic has been brought under control.

"There definitely used to be a stigma about mental health," says Charles Watkins, clinical psychologist at Hamburg-based Mental Health Support Solutions, known as MHSS. While the older generation didn't have much to do with it, the younger generation are much more engaged through social media.

"The young are more used to different types of mental health, and psychology in general, so it's not a topic that's completely foreign to them."

His research has lifted a veil on stress onboard ship that has long been regarded as part of the job.

"Most seafarers are resilient," he says. "They will endure the pressures, take the insults and the shouting.

"But one seafarer in a hundred can't — for many reasons. It might be there are problems at home contributing to stress, and it becomes too much; or he might be a young seafarer who hasn't worked out how to cope with being on a vessel for a long period of time."

He observes that every vessel has its own culture, and every culture is communicated in a different way. By digging into the culture, the resilience of the crew can be predicted along with the probability of someone becoming unstable and unable to work.

On rare occasions, he says, this can even lead to suicide.

"The more we have worked in this area, the more webinars we give, the more feedback we get from seafarers — mainly officers — the more we found out that harassment and bullying are still a huge part of the industry. It happens all the time, more than we ever expected. The more we see this, the more we understand how it affects people."

Seafarers talk about stress, harassment, and bullying, but often the culture on board leads to expressions of frustration becoming suppressed.

Meanwhile, industry-wide developments have had an unexpected bearing on mental health issues.

In normal times, rapid crew rotation has broken up teams and reduced loyalty; officers have been promoted to senior positions in their late 20s, before they have gained experience of team leadership; and the arrival of social media has had a damaging impact on social interaction.

"Our experience is that communications is a double-edged sword," says Mr Watkins. "On the one side it's extremely helpful to see your wife or your husband, talk to the kids, communicate, still be somehow part of the family even if you are far away.

"At the same time it can be potentially problematic. You hear of all the emotions but you can't get back when things happen. This impacts on their emotional and mental wellbeing, and motivation, the way they work and the way they focus."

There used to be a lot more social interaction onboard, more of a buddy system. The ability to retreat to the cabin to chat with the family or watch movies has limited the time available for playing cards or watching movies as a team.

"In general, there has been a decrease in positive interaction, even if that was just playing cards together," he says. "You are with someone; social interaction creates resilience. It releases certain hormones which strengthen us and decreases stress levels, helps us to bond and get over stress more quickly.

"Unfortunately, this doesn't happen as often. That's what we are seeing, which is why we can see a discrepancy between how we are now and how we used to be, and the impact it has on resilience."

The answer lies in understanding the role played by senior managers ashore in building consistent communications throughout the company, in providing ship masters with the resources they need to cascade this attitude throughout the ship, and in creating a culture of listening to every seafarer whether they have spent decades at sea or making one of their first voyages.

MHSS chief executive Christian Ayerst, whose early career was spent in maritime law before joining shipowner and operator Stolt-Nielsen, believes 2021 will be "a seminal year" in how the industry approaches mental health and practises mental hygiene among its crew.

Covid has been a real test of that change, he says, however the true catalyst will be how the industry becomes more proactive to mental health issues.

Companies have started to approach Mental Health Support Solutions to ask about developing a strategy for improving mental hygiene both at sea and onshore.

At a basic level, the company offers 24/7 access to qualified professional psychiatrists; the next step is to work with partners to create a suite of webinars and seminars; followed by provision of an audit for corporate compliance on mental health — does the approach managers claim they have in place match what their people experience — and policy reviews.

These are growing in importance as companies' own partners are starting to demand mental health assessments.

Later this year, MHSS will introduce apps to enable webinars to be accessed digitally, to enhance information resources available to be placed onboard ship.

Mental health has gained significance during the pandemic. Many organisations and leading companies are taking it more seriously. However, because the issue is so broad, it is hard to know where to start, says Mr Ayerst.

"It would be fantastic if somebody with significant influence in the industry said: 'these are the standards we expect'," although for various reasons he believes that's unlikely.

"So it falls on the shoulders of specialists to work with partners to say, 'you don't have to do this, it's not a regulation, but it's good for you, good for your staff, good for the rest of the industry; you are a leader, if you do this, others will follow.'"

He seeks early adopters to begin the process. "That's the position we want to be in. We want to work with partners to push the envelope further and encourage others to follow."

Economic Outlook: Vaccine rollout key to rebound in global economy

ACCORDING to the Centre for Economics and Business Research World Economic League Table 2021, published at the end of the past year, the total cost of the coronavirus pandemic in global GDP terms is about $6trn.

Almost every country in the world has been negatively affected by the coronavirus backdrop in terms of GDP growth, with the exception of China, which was severely hit in the opening months of the past year. It rapidly recovered.

The CEBR notes that one of the major effects of the measures imposed last year has also been to redistribute economic momentum between countries, with Asia performing better than Europe and the United States, as previously reported on Lloyd's List.

It predicts that this redesign of the global economy will mean that China will overtake the US as the world's leading economy by 2028, which is five years earlier than its previous prediction.

The rapid adoption of networking technology to facilitate home working helped to limit the impact of the coronavirus in many sectors of western economies in the past year, and for shipping also accelerated the path towards digitalisation.

But strong production and a fast rollout of new vaccines to combat the spread of the virus should see major economies bounce back to pre-pandemic levels in 2021. Even then, China is expected to be the leader in terms of GDP growth in the coming 12 months, with in excess of 8% predicted by the CEBR.

This is expected to be good news for the dry bulk sector, which only declined by 1.9% in seaborne trade volumes in 2020. This was primarily due to China's imports of raw materials for vast infrastructure projects, much of it being iron ore for steel production. Global steel production grew by 6.6% in November 2020.

Container volumes decreased in 2020 due to the impact of the lockdowns in China at the start of the year and the subsequent slowdown in consumer demand from western markets. That changed dramatically in the second half of the year, however, as the demand bounce-back exceeded expectations and retailers scrambled to replenish stocks.

Asia-Europe rates are at record highs as new lockdowns and a shortage of equipment increase demand for container slots, while congestion at major ports grows.

China's increasingly important role in the tanker market is also evident in figures released by ship brokerage Poten & Partners this week. It said 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.

The backdrop has not impacted Chinese imports of energy products in the same way as it has in Europe, where new lockdowns will extend the period of muted demand.

Total seaborne trade saw negative growth in 2020 and is estimated to have fallen by 3% versus 2019. The rebound in 2021 is forecast to be plus 5% and in 2022-2024 the forecast stands at a yearly average growth of 3%.

While China's economic growth is tracking ahead of schedule, the unrest seen in the United States in the past week when protesters stormed the Capitol highlights the extreme division that has crept into politics there and could hamper efforts to tackle the coronavirus pandemic.

The Eurasia Group think tank ranked political division in the United States as number one in its Top Risks of 2021 list, ahead of Long Covid, energy transition and US-China trade tensions.

It points out that while Joe Biden's victory was decisive in terms of both the electoral college system and popular vote, outgoing president Donald Trump increased the number of votes he received to 74m, up by 11m compared with 2016, showing that his base extends well beyond his most vocal supporters.

With President Trump's refusal to accept the outcome of the election, coupled with Republican gains in the House of Representatives and success in creating a decisively conservative Supreme Court, Eurasia argued that Mr Biden will start with the weakest political mandate since Jimmy Carter in 1976.

The report was released on January 4, prior to the Capitol unrest and Democrats effectively winning control of the Senate and therefore full control of Congress alongside the majority they hold in the House, but much will depend on the pandemic response and economic recovery.

Should the vaccine rollout proceed as hoped, with the pandemic subsiding and a strong economic recovery following, Mr Biden will almost certainly gain political capital and may be able to bridge the political divide. However, if the response fails and the economy stutters, the opposition to his presidency will grow.

Another issue that found some resolution at the end of 2020, although will undoubtedly be revisited and reassessed as the year goes on, was Brexit.

A deal to cater for the post Brexit partnership was agreed between the European Union and the UK in late December and provisionally implemented on January 1.

In many aspects, the deal is what the market thought an agreement would look like. In broad terms, it ensures continued tariff-free and quota-free trade in goods after January 1, although there is no word on services, which make up 80% of the UK economy and are the strong suit of London as a maritime centre.

The deal should be not be seen as an end in itself but as the beginning of a drive to test new policies that could work to the benefit of both sides in promoting prosperity, while ensuring that the gains from prosperity are fairly shared out. Given that the EU economy is six times as large as the UK, the latter is probably the one gaining most on a deal.

For shipping, it means that vessels sailing between Britain and the EU will continue to enjoy unrestricted access and the same treatment in each other's ports after Brexit.

The 1,246-page agreement also bans either side from erecting non-tariff barriers to shipping in future. It is too early to assess all the potential effects of the deal yet, but in short — it is most likely better for trade and shipping to have the deal, than not.

Perhaps of more consequence on a global level is that the EU also signed an agreement with China late in the past month.

The EU-China investment, which has been some seven years in the making, removes barriers on foreign investments in China for some European industries as well as tackling forced technology transfer, non-transparent subsidies and state-owned enterprises. It also commits China to "make continued and sustained efforts" to ratify international conventions on banning forced labour.

While it is a big win for the EU, particularly in light of the growing economic influence of China as outlined above, some analysts see it as a challenge to the incoming Biden administration, which wants to coordinate with Europe on how to handle China politically in future.

EU officials have rejected criticism that they did not consult with Washington over the deal, arguing that the US secured its own trade and investment deal with China under President Trump, and that the EU is simply trying to ensure it has similar market access conditions, which would allow Brussels and Washington to then co-ordinate their policies towards China from a similar starting point.

MARKETS

Dry bulk and tanker markets face challenging year

OWNERS pinning hopes on a dry bulk rate recovery in 2021 will have to adjust their outlook based not just on China's continued strength of demand, but also on the scale of recovery in the rest of the world.

For seaborne iron ore trade, soaring prices indicate not just firm demand, but also actual and anticipated constraints on supply, according to brokerage Simpson Spence Young.

"For the main arterial capesize iron ore trades, the ability of mining companies, especially those in Brazil, to raise output will be crucial in shaping this year's trade growth," it says in its 2021 outlook.

Coal, on the other hand, has suffered the greatest reverse of the main dry bulk cargoes in 2020, on course for an annual decline of more than 100m tonnes.

"Prospects for recovery are complicated by not just the pace of recovering demand, but also by the structural challenges facing producers from worldwide efforts to reduce carbon emissions."

Again, China's coal import policies are likely to have far-reaching effects. At present, the apparent aversion towards Australian coal and rising domestic steam coal prices has benefited coal suppliers in Indonesia, and US coking coal exporters have reported more interest from China.

Fortunately, grain trades in contrast to coal, are maintaining their upward trajectory, SSY noted.

Another key question this year for bulker owners is the extent to which fleet inefficiencies will continue to distort vessel supply-demand balances.

Since the beginning of 2020, the capacity of the dry bulk fleet expanded by a net 3.9% to mid-December, with demolition activity low by historical standards, but fleet carrying capacity during this time has faced numerous constraints from coronavirus-related delays resulting from crew change complications and quarantining in addition to chronic berthing delays in China's terminals since June.

"The dry bulk market of 2020 witnessed many twists and turns for both vessel demand and supply, and this year will no doubt bring more," said Derek Langston, head of SSY consultancy and research.

The tanker market will also face a challenging year after multi-year high rates.

A combination of factors such as crude production changes, still-high oil inventories, refinery closures, a new US government and potential foreign policy shift, an overhang of tonnage after low scrapping in 2020, and low oil consumption following coronavirus-linked demand destruction is likely to weigh on tanker markets.

"Changes in oil production policy in response to accelerating coronavirus cases will create volatility and uncertainty for the tanker sector," said Claire Grierson, senior director at SSY consultancy and research.

The 23-nation Organisation of the Petroleum Exporting Countries-plus alliance increased its production quota by 500,000 barrels per day for January 2021 and subsequently agreed a further 75,000 bpd increase in February and March.

But this was down from a previous plan of a 2m bpd rise that would have reduced production cuts to 5.8m bpd, meaning still substantial reductions in cargo volumes.

What is more, the surprise announcement by Saudi Arabia of a unilateral output cut of 1m bpd in February and March will only add further downward pressure to tanker earnings in the near term.

With Atlantic basin refinery closures and run cuts, a surplus of Atlantic crude could be prime for shipment to Asia, which has recovered faster from the coronavirus outbreak and is adding new refining capacity, especially in China, Ms Grierson said.

"This may offer much-needed pockets of underlying support for some of the crude tanker sectors."

One of the main downsides for the crude tanker market, however, would be the return of Iran's tanker fleet. "These ships have largely been utilised for storing oil since sanctions were imposed. If these vessels start delivering Iranian oil to refiners again, it will take trade away from the rest of the fleet."

Further, dampened oil use will weigh on product tanker activity but there could be some positive opportunities from a wave of refinery closures, as weak margins put refineries under greater pressure.

The closures are mainly concentrated in the Atlantic basin, with these facilities facing increasing competition from the larger, more sophisticated refineries that have petrochemical facilities coming on-line in the Middle East Gulf and Asia, SSY added.

Nevertheless, demolition should accelerate given sustained weak earnings, a rise in scrap values and based on the age profile of the fleet with a possibility for many older ships to be removed in 2021.

LNG demand set for growth as global gas production drops 3.6%

GLOBAL natural gas production dropped 3.6% to 3.9trn cu m a year in 2020 as low oil and gas prices led to lower exploration and production, according to the estimates of Rystad Energy.

North America was the gas-producing region most impacted by the pandemic with production estimated to have dropped by 47bn cu m to 1.1trn cu m in 2020, Rystad said.

Despite lockdowns caused by the coronavirus pandemic, gas demand was shielded by low prices which made gas competitive in the power sector, preventing a larger drop.

Gas demand thus did not fall as much as oil demand, recording only a 2.5% decline to an estimated 3,840bn cu m globally.

While demand for gas in Asia remained relatively strong, in Europe consumption was more severely affected, dropping some 7% year-on-year, or by around 40bn cu m, followed by Africa, with 26bn cu m.

Liquefaction capacity grew 5% in 2020, reaching 464m tonnes per year, as new plants — mainly in the US — started operations.

US capacity is estimated to have risen 42% to reach 71m tonnes per year with the commissioning of trains at Cameron, Corpus Christi, Elba Island, and Freeport.

Russian capacity meanwhile reached 29m tonnes per year.

Despite lockdowns, global liquefied natural gas imports grew 3% to 363m tonnes in 2020.

Asian LNG demand grew 4% year-on-year, mainly driven by China, while other buyers in the region also took advantage of low prices to substitute for coal as a fuel in power generation.

European seaborne imports remained strong during first-half 2020 as buyers nominated less Russian piped gas.

Global natural gas production is expected to grow by 24% to 4.9trn cu m in 2040, Rystad said, with most additions coming from North America, up 410bn cu m versus 2020 production, followed by Russia up 190bn cu m, and the Middle East up 185bn cu m.

US natural gas production could reach 1.2trn cu m in 2040, driven by output from Marcellus and the Permian basin. However, US shale production may be at risk of regulation from the incoming Joe Biden administration.

Russia, Iran, and Qatar could also contribute substantial output. Europe will be the only region to decline by 74bn cu m due to lower production from Norway and the Netherlands.

Global natural gas demand is set to increase through 2040 by 26% to 4.9trn cu m, with Asian demand being by far the largest addition, up 537bn cu m versus 2020, as gas will still be needed to power the region despite growth in renewables.

Environmental policies and growth in renewables will lead to a decline in demand from 2024 in Europe, with the total demand losses on the continent to reach 43bn cu m in 2040, compared with 2020 demand.

US demand also is at risk due to new environmental policies expected to be announced by the incoming Joe Biden administration.

Global liquefaction capacity is expected to nearly double by 2040, reaching a total of 886m tonnes per year, a 91% increase from 2020.

With gas production growing the most in the US, its liquefaction capacity could continue to increase to 220m tonnes per year in 2040.

The US is expected to be followed by Qatar with 124m tonnes per year, Australia with 96m tonnes per year, and Russia with 70m tonnes per year.

The world's LNG production is expected to reach 672m tonnes in 2040, a 79% increase over 2020.

A spectacular rise in LNG production in the US is expected — 203m tonnes for the whole of North America — as gas production grows while domestic demand growth is limited.

Qatar will continue to be a key LNG player driving Middle Eastern exports, while Mozambique will help put Africa back on the global LNG map.

However, even more LNG production is needed to keep up with demand: Far exceeding production, the demand for LNG imports is expected to grow to 736m tonnes in 2040.

Due to limited domestic production, Asia will absorb most of the growing LNG supplies to fuel increasing power demand. China, India, Pakistan, Thailand, and Bangladesh are expected to drive the growth.

European seaborne imports will drop as pipeline imports become more accessible.

LNG spot rates at $350,000 as fleet dries up

SPOT rates for the liquefied natural gas shipping are holding at record high levels as the lack of free vessels is limiting the number of deals.

The prolonged LNG rate boom, driven by a very cold winter and a limited pool of available vessels, has brokers looking for ships that are not there, even as charterers are willing to spend $350,000 per day to take on ships.

BP has reportedly chartered Nigeria LNG's LNG *Abalamabie* (IMO: 9690171) for around $350,000 per day for what is understood to be a cargo delivery from the US Gulf to Europe.

The vessel left Nigeria in recent days and is headed to Freeport in Texas, according to Lloyd's List Intelligence data. It is currently sailing off Venezuela.

A senior broker said that his firm was discussing spot charter rates around those levels with interested parties, though each case was ship and date sensitive. "That's the level needed to free ships from somebody else."

The BP deal rivals the tanker charter record set in March 2020 when Bahri took in the 297,123 dwt *Sea Splendor* (IMO: 9575101) for $352,000 per day on a Saudi Arabia-US Gulf voyage.

The broader LNG spot market is not too far removed from the value of the BP deal. Average spot rates for the US Gulf to Europe voyages through the Isle of Grain dropped by just over $10,000 since January 8 to $310,691 on January 12.

Despite the marginal decline, these levels remain far beyond what could be considered a normal or even profitable rate during this stage of the year; a year ago daily rates on the same route averaged just over $90,000.

But daily rates for the much longer US Gulf to Japan round voyage grew by almost $25,000 to hit $253,270. The Australia to Japan round voyage also grew by almost $13,000 to $232,827.

The majority of the LNG shipping is tied to longer-term contracts bound to specific exporting projects. The International Group of Liquefied Natural Gas importers (GIIGNL) reported that in 2019 that just 31.6% of annual global LNG imports were delivered on the spot market.

Lloyd's List Intelligence shows there are 596 live LNG carriers trading today. That translates to around 188 vessels on the spot market, according to the 2019 GIIGNL share.

The rally in LNG spot shipping is being driven by both supply and demand factors. The cold winter, especially in Asian countries such as Japan and China, which are the largest LNG importers, has driven demand for LNG to service the power needs.

Japan in particular is facing power shortages and Japanese power prices recorded all-time high prices on Tuesday.

The Japan-Korea Marker, the Asia LNG price index that trades on S&P Platts, reached a new record high of $32.494 per one million British Thermal Units.

Meanwhile, the US exporting benchmark, the Henry Hub, was trading just above $2.84 on January 12. The large price differential between the two means gives traders an incentive to ship cheap cargoes to LNG-hungry Asian markets even with the stratospheric shipping prices included.

Recent media reports say Total sold an LNG cargo to Trafigura for delivery between February 11 and 15 to China at a record $39.30 per mmBtu.

Charter rates — and the challenges in LNG supply — have been exacerbated by shortage in available ships to pick up cargoes as well as transit delays in the Panama Canal.

There is pretty much no availability for the next two weeks or so. If production issues closer to the key markets will be resolved, there will be a lesser need for cross-basing supply," Braemar said.

The senior broker acknowledged that firms had received a lot of requests from interested charterers but cannot find free ships, which is part of the reason the rates are so high.

"It is very frustrating as a shipbroker not to be able to fix ships at these rate levels," he said.

Amid this vessel shortage, persistently high demand and rates, market players may be seeking to reshuffle their vessel deployment.

Chartering in a ship for a shorter voyage allows companies to utilise one of its own vessels and deploy it on the longer haul — and therefore more lucrative — US Gulf to Asia voyages.

"The shipowners are not in the game any more. This is between LNG cargo traders," the broker said.

IN OTHER NEWS

Euronav joins call for action on crew change crisis

A GLOBAL initiative to resolve the ongoing crew change crisis has secured support from one of the world's largest tanker companies.

Euronav has become a signatory to the Neptune Declaration on Seafarer Wellbeing and Crew Change, which has been developed by the Global Maritime Forum.

The task force, which is co-chaired by V.Group chairman Graham Westgarth and ONE chief executive Jeremy Nixon, will officially launch during the Davos Agenda Week later this month.

KSOE wins $182m twin VLCC order

KOREA Shipbuilding & Offshore Engineering continues to build up its order momentum at the start of the year with a Won200bn ($182m) order for 300,000 dwt very large crude carriers for a European company.

The VLCCs will be built by its Hyundai Heavy Industries unit and be delivered to the unidentified customer from the first half of 2022, the company said.

KSOE won orders for 27 VLCCs in 2020, accounting for 65% of the global orders for such types of vessels.

Union Maritime acquires two capesizes

UNION Maritime has expanded its fledgling presence in the dry bulk market, acquiring two middle-aged capesizes against mainly Greek competition.

The company is paying $20.4m for Nissen Kaiun's 2010-built *King Ore* (IMO: 9490612), Lloyd's List has confirmed, while market sources quoted a $19.1m price for the other acquisition, the 10-year-old *Cape Istanbul* (IMO: 9446908) from Eregli Shipping.

Calls to Union Maritime, sometimes described as the largest independent UK-based tanker owner and operator, were not immediately picked up.

Hapag-Lloyd boxship boarded off Colombia

A HAPAG-Lloyd boxship has been illegally boarded off Cartagena, Colombia, in a rare security incident for the region.

Five intruders boarded the Bermuda-flagged, 1998-built, 66,525 dwt *Dusseldorf Express* (IMO: 9143556) about 40 nautical miles west-southwest of Cartagena on January 9, according to Lloyd's List Intelligence.

A Hapag-Lloyd spokeswoman said no crew were harmed and nothing stolen.

Scorpio declares option to sell Ocean Yield ultramax

SCORPIO Bulkers, a US-listed owner that is moving away from the dry bulk sector to the offshore wind market, has announced the sale of another ultramax.

The company said it had entered into an agreement to sell *SBI Libra* (IMO: 9722003) to an unaffiliated third party for about $18.65m.

In a separate statement, Norway's Ocean Yield said Scorpio, which employed the 2017-built vessel on a long-term charter, had declared an option to sell. There are two other bulkers on similar arrangements listed on the company's website.

Classified notices follow