08 June 2018

HARTLAND
SHIPPING SERVICES

WEEKLY COMMENTARY

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# THE BIGGER PICTURE

… Scrubber Talk …

Source: Container Shipping & Trade / Wartsila

## POINTS OF VIEW

It is no surprise that IMO 2020 was a leading talking point at Posidonia this week. We have 18 months to go before the implementation of new rules on the permitted sulphur content of marine fuels as it drops from maximum 3.5% (as common in IFO 380cst) to maximum 0.5% (close to the maximum 0.1% allowed in MGO). This will be achieved by blending heavy fuel oil with marine gas oil to achieve a compliant ratio. The current price delta between HFO and MGO is about $230 per tonne and this is expected to widen by 2020**. At least, it is a common assumption that, in the short term, the price of HFO will fall and that of MGO will rise as demand for HFO will decrease while demand for MGO will increase. It is also assumed that HFO will continue to be available while MGO will be in short supply. In assessing the economic viability of emission abatement technology, scrubber talk, many assumptions need to be made in order to estimate the payback time, ranging widely between one to three years. An inordinate amount of guesswork is involved which suggests that the smartest decision is to do absolutely nothing and default to burning MGO 100% of the time from 2020.

Ideally, all ships would have to use max 0.5% sulphur fuel by law from 2020 but, as is typical of the backsliding nature of shipping regulation, ships will still be able to use 3.5% HFO if they fit exhaust gas scrubbers that will wash emissions into compliance. Scrubber talk revolves around open loop, closed loop and hybrid systems that generate toxic waste that is either discharged at sea or pumped ashore with unknown environmental consequences and impacts; just one of many unknowns. We do not know if refiners will continue to produce HFO or whether they will ramp up MGO production. We have no idea how quickly and how widely they will produce low sulphur blends (LSFO) and how compatible different blends will be if comingled in a ship's main engine and auxiliaries. We have no right to assume that LSFO will be any cheaper than MGO. We should anticipate that power stations around the world may hoover up HFO as, on a pure scale basis, surely they can justify the cost of scrubbers more easily than a ship. Over time they could easily outcompete ships and cause the price of HFO to spiral upwards just as the price of MGO and LSFO plummets on greater supply and wider availability.

When will the refineries^ let us know what they plan to do to facilitate this imminent shift to cleaner marine fuels? Better to eradicate this inexact debate about scrubbers by producing cleaner fuels upstream than have ships fitted with their own mini-refineries. We will not need showers in funnels if the oil companies play their part in helping to get the global shipping industry into compliance. One must also bear in mind that shipping is good at exploiting loopholes and IMO 2020 will be like a red rag to a bull. As the IMO has no legal power of enforcement it falls to flag states and port states and we all know that different countries and ports will vary in their resolve to enforce the rules. One can easily imagine that, in the initial chaos of attempted observation and willing implementation, many waivers will be given on the grounds of lack of availability of LSFO and MGO. How wide will the price delta between HFO and MGO become? If it goes too wide then it will not be for long as, in the nature of markets, gaps close. Brent was $147 a barrel in August 2008 before plunging to $27 in January 2016. Freight rates adapt to higher and lower bunker prices via cost pass through mechanisms, albeit imperfect ones. Why should it be any different in switching to low sulphur marine fuels?

Ultimately the shipper, end-user and consumer will pay for the higher cost of compliant fuels and, as compensation, they will benefit from cleaner air. On that basis, we have no need for on-board scrubbers. Bunker cost recovery varies between sectors. Bunker adjustment factors did not sufficiently compensate container lines for rising oil prices in Q1, so their results were terrible. They suffered the double whammy of having to pay more to time charter in tramp ships as time charter rates had firmed, while those tramp owners were protected from higher fuel costs as these fell upon the lines. Tankers operating on voyage basis* are paid for fuel based on the average price of the first three quarters of the previous year and can lose out big time in a rising oil price environment. Owners hiring out their ships on TC need not worry about bunker prices, as it is not their problem, but if they fit expensive scrubbers then they have no idea of the extent to which the charterer will share the benefit. Bulk carrier owners fitting scrubbers need to learn how to do a voyage calculation and build up complex and costly infrastructure to execute voyage charters instead of TC-out, as this is the only way to capture 100% of the benefit. In the old days scrubbers used to work very well in the wash house; these days they are highly unlikely to work on board ships. Try slowing down instead!

**Some estimates, e.g. by scrubber manufacturers, suggest that this delta will widen to $400-600 per tonne, but they would, wouldn't they…?

^Allegedly, oil companies are pressing owners to fit scrubbers, maybe as this will limit the extra investment needed in new LSFO/MGO production.

*Under annual Worldscale freight rate schedules.

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**Dry Cargo Chartering**

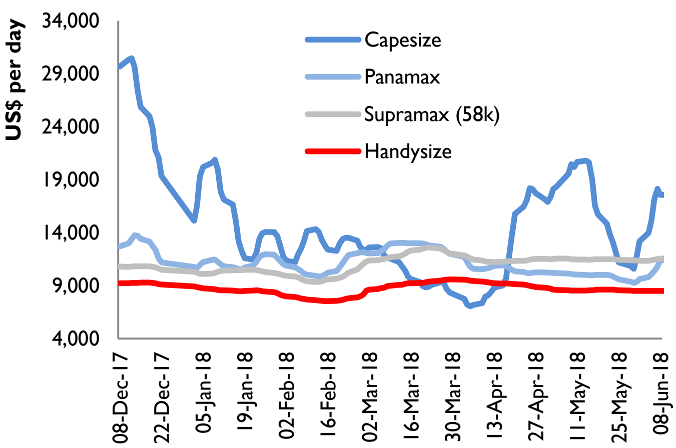
The **BDI** closed the week at 1391, up from last weeks 1,156. The busy Posidonia schedule didn't result in any slow down for the **capes** which had another impressive week, closing at $17,566. Up $4,386 from last weeks close. On timecharter, Pacific Bulk fixed the *Anangel Guardian* (179,701-dwt, 2010) delivery Yantai via Australia, redelivery China at $20,000. Hanaro fixed the *Mineral Beijing* (174,083-dwt, 2004) delivery Rizhao for a trip via West Australia, redelivery Singapore-Japan at $17,500. On voyage, Rio Tinto fixed the *Cape Galaxy* 170,000/10% ore Dampier/Qingdao at $8.15. Oldendorf fixed the *London Spirit* 185,000/10% Tubarao/Qingdao at $18.25. KEPCO fixed 133,000/10 coal Newcastle/Hadong at $11.16. Later in the week, NSSMC fixed a Cargill TBN 170,000/10$ ore Itaguai/Japan at $18.95.

The **panamax** market closed at $11,385, up from last weeks $9,572. In the Pacific the *CMB Sakura* (75,765-dwt, 2006) delivery Shidao via Australia redelivery Malaysia fixed at $9,750 to K-Line. Kaishun fixed the *Genco Surprise* (72,495-dwt, 1998) delivery Dongfang in direct continuation via Indonesia redelivery south China at $10,000. On front haul, Omegra fixed the *Pan Bicorn* (82,158-dwt, 2012) delivery East Coast South America redelivery Singapore-Japan at $16,800 plus $680,000 bb. Also on front haul, CJ International fixed the *Shandong Fe Zu* (82,000-dwt, 2017) delivery East Coast South America, redelivery Singapore-Japan at $16,000 plus $600,000 bb. In the Atlantic there were less fixtures reported. SwissMarine fixed the *Nordic Orion* (75,603-dwt, 2011) delivery Ijmuiden via Baltic and Mediterranean redelivery Gibraltar at $7,000. On the period front, Solebay fixed the *Ever Grand* (81,688-dwt, 2013) for 9/11 months at $13,250 delivery Qinghuangdao, redelivery worldwide.

The **supramax** index closed the week at $11,559, up from last weeks close of $11,342. In the Pacific, Oneocean Maritime fixed the *Dato Lucky* (56,881-dwt, 2011) delivery Zhoushan via Philippines, redelivery China at $13,000 and the *Densa Cougar* (57,592-dwt, 2012) was fixed by Bostomar delivery Manila via Indonesia, redelivery East Coast India at $12,000. In the Atlantic, Norden fixed the *Spar Aries* (63,800-dwt, 2015) delivery US East Coast, redelivery Mediterranean at $17,000 and the *Common Venture* (57,002-dwt, 2011) was fixed by ADMI delivery Santos, redelivery Algeria at $13,000. On the front haul, the *Huayang Rose* (63,562-dwt, 2016) was fixed for delivery Santos, redelivery China at $14,800 plus $480,000 bb. On the period side, Western Bulk Carriers fixed the *Golden Cathrine* (60,263-dwt, 2015) delivery Bukpyung for 4/7 months at $14,000 and the *Young Harmony* (63,567-dwt, 2014), fixed for delivery CJK for 3/5 Months at $13,450. The **handy** index closed at $8,505, up from last weeks $8,486. Norden fixed the *Tczew* (39,072-dwt, 2016) delivery Santos, redelivery Algeria at $10,500 and the *Emerald Bay* (32,258-dwt, 2008) was fixed by Swire Bulk delivery US Gulf, redelivery Tunisia at $9,500.

**Representative Dry Cargo Market Fixtures**

| Vessel | DWT | Built | Delivery | Date | Redelivery | Rate ($) | Charterers | Comment |
|---|---|---|---|---|---|---|---|---|
| Goliath | 209,537 | 2015 | Rizhao | PPT | Singapore/Japan | 26,000 | CNR | Via Aus |
| Welfine | 93,146 | 2011 | Jorf Lasfar | 8/9 June | Passero | 12,800 | Norden | Via Murmansk + Israel |
| Mynika | 84,108 | 2013 | Amsterdam | 14/15 June | Singapore/Japan | 22,750 | SwissMarine | Via USEC |
| King Barley | 82,177 | 2012 | CJK | 10 June | India | 12,000 | CNR | Via Indo |
| Corinna | 81,682 | 2013 | Ijmuiden | 7 June | Skaw/Gibraltar | 14,000 | Bunge | Via USG |
| Medi Manila | 57,903 | 2014 | Lianyungang | 13/15 June | Manila | 10,000 | CNR | Steels |
| Common Venture | 57,002 | 2011 | Santos | PPT | Algeria | 13,000 | AMDI | Grains |
| Peridot | 56,724 | 2012 | USG | PPT | Japan | 16,000 | Hudson | - |
| Emerald Bay | 32,258 | 2008 | USG | PPT | Tunisia | 9,500 | Swire | Grains |
| Tczew | 39,072 | 2016 | Santos | PPT | Algeria | 10,500 | Norden | Sugar |




| Exchange Rates | This Week | Last week |
|---|---|---|
| JPY/USD | 109.33 | 109.48 |
| USD/EUR | 1.1765 | 1.1683 |

| Brent Oil Price | This Week | Last week |
|---|---|---|
| US$/barrel | 76.47 | 77.10 |

| Bunker Prices ($/tonne) | This week | Last week |
|---|---|---|
| Singapore IFO | 451.0 | 452.0 |
| MDO | 667.0 | 683.0 |
| Rotterdam IFO | 432.0 | 434.0 |
| MDO | 642.0 | 655.0 |

## Dry Bulk S&P

The S&P rumour mill never quite got up to full speed this week on the dry side as Posidonia slowed the whirring of the cogs.

The most notable rumour is the reported sale of *Ince Point* (37,500-dwt, 2015 Shimanami), reportedly committed at $20.5m, in line with the recent Pacific Basin acquisition of large, modern Japanese handy, however is on a cash basis, rather than part shares / part cash deal which provides more solidity to the benchmark.

Details have emerged of *King Wheat* (33,387-dwt, 2009 Shin Kochi) sale which called for offers last week. She's been committed to OSR (Orient Shipping Rotterdam), one of several active Buyers in this segment. The reported price of $12m is roughly in line last done *Sider Venus* (32,120-dwt, 2009 Hakodate) concluded a month ago in the region of low $12s.

Elsewhere, the Chinese import market continues to produce active Buyers at levels similar to last done. Several other vintage units have been tied up, of note *Nearchos* (72,400-dwt, 1998, Imabari) is rumoured committed at $5.8m, a soft price if correct even with DD due and suggestions she was in poor condition. The return of brokers and principals to their desks next week, coupled with a rising Cape market boosting the BDI could produce a pre-summer stimulus, fingers crossed.

**Reported Dry Bulk Sales**

| Vessel | DWT | Built | Yard | Gear | Buyer | Price $m | Comment |
|---|---|---|---|---|---|---|---|
| Nearchos | 72,413 | 1998 | Imabari | - | Undisclosed | 5.8 | DD Due |
| Jin Fu | 50,700 | 2001 | Oshima | C 4x30 | Chinese | 8.7 | |
| Agia Eirini | 50,271 | 2001 | Mitsui Tamano | C 4x30.5 | Chinese | 8.3 | |
| Summerwind | 43,176 | 1995 | Hyundai Ulsan | C 4x25 | Undisclosed | 5.3 | |
| Ince Point | 37,503 | 2015 | Shimanami | C 4x30 | Undisclosed | 20.5 | |
| King Wheat | 33,387 | 2009 | Shin Kochi | C 4x30 | Orient Shipping | 12 | |

**Demolition Sales**

| Vessel | DWT | Built | Yard | Type | LDT | Price | Delivery |
|---|---|---|---|---|---|---|---|
| Gaz Unity | 53,171 | 1982 | Mitsubishi | LPG | 21,377 | 420 | 'As is' Fujairah |
| Baltic Pride | 10,695 | 1989 | Shikoku | REEF | 6,164 | 425 | India |
| Taganrogskiy Zaliv | 10,582 | 1993 | Gdanska | REEF | 6,375 | 426 | India |
| Shinline 4 | 6,682 | 1983 | Kochi Jyuko | TWEEN | 6,682 | 390 | India |

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## Tanker Commentary

As the sun sets on Posidonia 2018 the market is awash with rumours of newbuilding activity notwithstanding the lack of second hand sales. The forthcoming IMO 2020 regulations appear to be shifting owners attention towards the newbuilding market rather than buying acquiring ageing second hand tonnage despite the cyclically low prices on offer.

The MR sector has received the lions share of the attention with reports of numerous contacts being signed at Hyundai Mipo. Specific details on pricing are scarce however Yasa Shipping are reported to contact 4 firm MRs where as Empire Navigation are understood to have penned up to 8 contacts including options all against long term TCs.

There are also unconfirmed reports that Vitol have acquired a series of 4 MR contracts as resales that Union Maritime hold at Hyundai Mipo. Perhaps the most interesting of all however is news of SK Shipping contracting 1+1 scrubber fitted MRs at Hyundai Mipo for $38m.

On the second hand side, the long running saga of the Vroon controlled *Iver Exact* (46,858-dwt, 2007 Hyundai Mipo) appears to have drawn to a conclusion with reports of Greek owners *Spring Mari*ne have paid $14m for the vessel. The price is a substantial softening on the last done of this vintage however it is worth noting several of the cargo tank coatings are reported to have experienced corrosion.

**Reported Tanker Sales**

| Vessel | DWT | Built | Yard | Buyer | Price $m | Comment |
|---|---|---|---|---|---|---|
| United Kalavryta | 159,156 | 2005 | Hyundai Ulsan | Avin International | 17.8 | |
| Iver Exact | 46,858 | 2007 | Hyundai Mipo | Spring Marine | 14 | |
| Aikaterini | 35,769 | 2001 | Daedong | Waruna | 6.2 | |

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