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Changing tack

From floating storage to experimental fuels, the global shipping markets look for new opportunities under drastically changed economic conditions. S&P Global Platts Shipping looks at what's in store for Q4 2020 and beyond.

Shipping special report

October 2020

S&P Global
Platts

Shipping

Introduction

Shipping Markets Respond to an Altered World

Expected seasonal upturns in freight markets should always be treated with caution. The fourth quarter of the year is often cited as a traditionally strong period for spot freight markets, with good reason. Tanker and LNG markets can benefit from increased demand for oil, gas and refined products due to the onset of winter in the northern hemisphere. Similarly, dry bulk markets can expect more thermal coal demand alongside increases in US grain export volumes following the onset of corn and soybean harvesting from September. And container freight typically sees an upturn in volumes of westbound finished goods in advance of the winter holiday season.

However, as market participants know, there are other factors that influence freight levels, which make predictions far from straightforward. As this report indicates, dirty and clean tanker owners are looking to floating storage as their potential savior given the ongoing oversupply of crude, products and tonnage. Chemical tanker owners, by contrast, appear to be cautiously optimistic around the resilience of demand for petrochemicals. Similarly, after a torrid time so far in 2020, LNG vessel owners are hopeful of a gradual recovery in the coming months.

By contrast, container freight rates have surged recently and our infographic tells the story of industry consolidation of the last few years that has been the key to the market's strength. Despite ongoing overcapacity, carrier discipline has succeeded in supporting freight rates in the face of the challenges posed by a global pandemic.

Meanwhile, the future of marine fuels continues to be debated. In the short term, the use of scrubbers by a sizeable portion of the global fleet which continues to grow, means that the use of HSFO endures alongside VLSFO for now. In the years to come LNG, methanol, hydrogen and ammonia are all in the mix as potential alternatives marine fuels. As ever, S&P Global Platts will continue to monitor and inform around these volatile markets as events unfold.

— Peter Norfolk

Dirty tankers

WEST OF SUEZ: OWNERS PIN HOPES ON STORAGE UPTICK

- Expectations for counter-cyclical fourth quarter gather pace
- Stock drawdowns to continue pressuring spot market demand
- Renewed interest in floating storage amid unsold barrels
- Low order book to reduce excess tonnage supply in 2021

Bearish tanker markets are likely to roll over to the fourth quarter amid limited signs of recovery in oil prices and structural oversupply weighing on spot markets.

While oil demand improvement over the fourth quarter will lend some support to the spot market and bring rates further away from operational fixed costs (OPEX), expectations for another forlorn quarter gather pace.

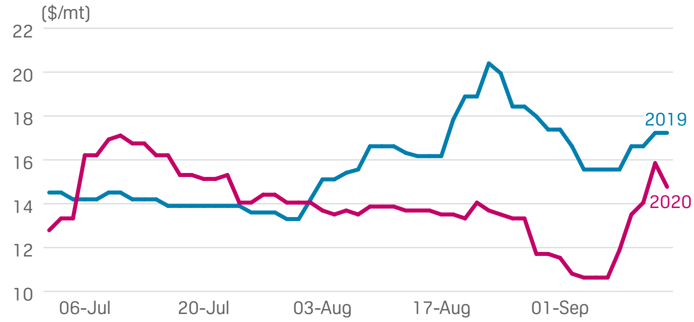
Short spikes can be expected in the coming quarter amid supply-tightening factors combining at once and storage inquiries picking up. Such spikes have already been seen towards the end of the third quarter when rates picked by 49% week on week to reach \$15.85/mt on Sept. 11 on the West Africa-to-East 260,000 mt run. However, unsupportive fundamental market conditions of plentiful storage and limited end-user demand mean spikes are likely to be short-lived.

Structural oversupply weighs on market

The third quarter of 2020 has given a clear snapshot of the structural weakness in the dirty tanker market, or its oversupply in tonnage. Coupled with OPEC+ production cuts coming in full swing, spot market rates plunged to \$13.95/mt over the third quarter on the 260,000 mt West Africa-to-East run from a second-quarter average of \$30.31/mt.

VLCC volumes across the principal West of Suez eastward trade lanes in August fell 27% year on year from West Africa and 66.7% from the North Sea, according to data intelligence company Kpler.

WEST AFRICA-EAST 2019 vs 2020



Source: S&P Global Platts

The Mediterranean market in particular has suffered from overtonnage, with freight rates ticking lower than OPEX levels in August. Ton-mile demand in the Mediterranean and Black Sea basin fell to 26,715 mt per nautical mile over the third quarter of 2020, or a 58% decrease year on year, according to Kpler data.

Normalizing oil production and demand in the fourth quarter will maintain freight rates stable at slightly higher levels, especially if more tonnage is tied into floating storage and Libyan production continuing to flow into the market. While the outlook for Libyan production remains uncertain, oil demand rose by 1.1 million b/d in August to 91.7 million b/d, and will continue growing by 540 million b/d every month over September-December according to the International Energy Agency. While this will some lend support to freight rates, spot markets are likely to continue competing with stock draws.

Storage demand picks up

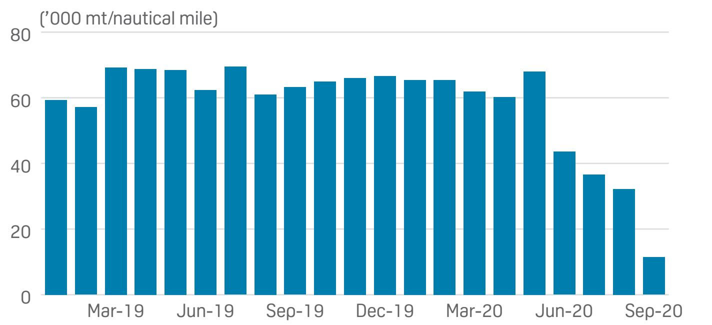
A weakening of the ICE Brent structure, with the Dated Brent curve flipping to contango recently, has led to increased interest in short-term floating storage. According to data from Kpler, floating storage has grown since early September, with 164 million floating barrels in the week starting Sept. 7, or 12 million barrels more than in the week starting Aug. 24.

A number of VLCCs were reported booked for floating storage amid unsold production and a widening contango. A couple of Suezmaxes were also heard booked in the East, but the contango did not lend enough support West of Suez, said a Suezmax broker.

However, time charter rates remain much weaker than throughout this year's second quarter. Trafigura was reported to have booked at least eight VLCCs during the first half of September for time charters of between six and eight months, and period rates were cited between \$20,500/d and \$42,000/d depending on the ship's age and charter duration. This is down from an average of 120,000/d to 130,000/d for a six-months charter in late April.

Aside from the crude market structure, more floating storage is expected amid a Nigerian crude supply overhang. However, whether owners will be able to command considerably higher rates is uncertain given time charter deals have replaced very expensive ones fixed in March and April.

MEDITERRANEAN AND BLACK SEA MONTHLY TON-MILE DEMAND



Source: Kpler

Lowest order book in years gives hope for medium term

While the outlook for the coming years is for a supply and demand balance given the order book is the lowest since the 1990s and the phase-out potential is the biggest since the single-hull phase-out of the early 2000s. Yet, the closing quarter of 2020 remains uncertain given scrappings have been delayed.

Since September 2017, the Ballast Water Management Convention mandates that ships built before September 8, 2017, should be in possession of the IOPP survey to postpone the installation of a Ballast Water Management System. At the start of 2020, around 100 tankers aged above 15 years were in possession of expiring IOPP certificates, making them candidates for scrapping as the high costs of installing a ballast water management system remains a loss-making choice.

However, while demolition prices have recovered from year lows of \$260/Ldt in Pakistan mid-May to \$320/Ldt in early September, owners might still continue delaying scrapping as they remain attentive to floating storage developments.

This is particularly relevant as older tonnage tends to be pushed by owners as floating engines, given the reluctance to tie modern tonnage and forgo a potential strong winter market..

— *Charlotte Bucchioni*

AMERICAS: Q4 FREIGHT GROWTH LIMITED BY CRUDE DEMAND CONCERNS

- Tonnage, crude oversupply weighing on freight
- VLCC segment eyes floating storage play

Muted dirty tanker demand heading into the fourth quarter of 2020 is expected to limit typical seasonal freight growth seen in Q4 of past years as oversupply from both the crude and tonnage perspectives, as well as an uncertain demand environment amid the coronavirus outbreak, continue to hold rates at yearly lows.

Dirty tanker sources are looking towards Q4 hopeful that it will bring the typical winter recovery in freight as cold weather sets in. Freight across all tanker segments typically sees rates reach yearly highs in the fourth quarter due to weather delays and increased charterer interest. However, market optimism has been tainted by the conviction that the summer lows will be long-drawn and the winter highs more moderate than previous years.

In 2019, freight for the benchmark Aframax 70,000 mt USGC-UK Continent route saw its bottom in mid-July, when freight reached yearly lows of \$11.44/mt, only to begin a gradual ascent from its summer lows by the end of August, averaging \$34.09/mt from mid-October through December after unprecedented spikes from US sanctions on major Chinese shipowner, COSCO Shipping.

For VLCCs on the benchmark 270,000 mt USGC-China route, freight took a similar path to their smaller counterparts, with freight averaging $5.32 million in the summer months of June and July, to climb to an average of $11.28 million in the same post-COSCO sanctions Q4 environment, a 112% increase.

Effects from the coronavirus pandemic have pushed rates to new lows in 2020. Freight for the Aframax USGC-UKC route reached a low of $10.19/mt on June 3 2020 and fell back to that level in early September.

Crude oversupply in both the US and Europe is lending to expectations of a weaker than normal trans-Atlantic Aframax environment.

Total crude stocks in Europe amounted to 329.5 million barrels at the end of August 2020, while total crude stocks in the US amounted to 494.4 million barrels, compared to 313 million barrels and 430.1 million barrels in August 2019, according to S&P Global Platts Analytics.

"I don't see any real movement [in rates] till likely November," a shipbroker said. "There's so much oversupply, that we can weather the storms. The [European] markets are very oversupplied too."

All eyes on floating storage play

The market continues to eye floating storage incentives to impact the dirty tanker market in Q4 as crude prices continue to weaken amid uncertain coronavirus lockdown measures.

In September, freight on the 270,000 mt USGC-China route ticked above the two-year low of lump sum $4.4 million from July 2018 as interest in floating storage in West Africa cleared positions off a lengthy global tonnage list and the Dated Brent crude curve structure flipped into contango.

—Catherine Wood, Nicole Baquerizo

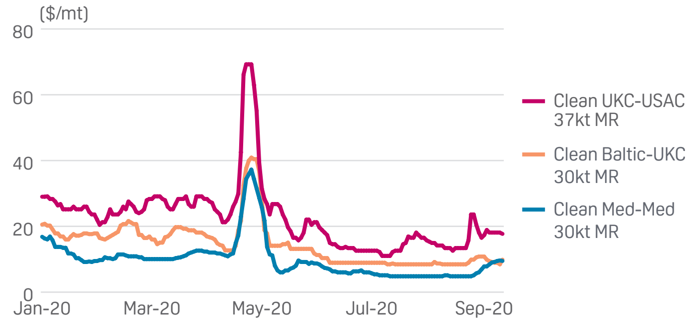
Clean tankers

WEST OF SUEZ: MARKET BRACED FOR FURTHER UNCERTAINTY

Uncertainty about demand for refined oil products given the possibility of further COVID-19 lockdown measures was the topic of conversation among clean tanker market participants heading into what is a traditionally strong end to the year.

Clean tanker freight rates were depressed for large stretches of the third quarter across all vessel classes, as the pinch of high inventories built in the second quarter, reduced refinery output and lackluster downstream demand led to some smaller vessel class routes hitting multi-year lows.

MEDIUM RANGE AND HANDYSIZE FREIGHT RATES 2020 SO FAR



Source: S&P Global Platts

Freight rates for Baltic-UK Continent, basis 30,000 mt, fell to Worldscale 90 ($8.46/mt) on July 10 — the lowest since September 2017 — while cross-Med indications, basis 30,000 mt, hit w80 ($4.82/mt) on July 13 — the lowest since September 2016. UKC-US Atlantic Coast shipments on Medium Range (MR) tankers dropped to w70 ($11.02/mt), a multi-year low.

Rates remained that way for the best part of a month for both markets.

The prolonged periods of low rates pushed shipowner earnings into the red, and morale among those owners dropped to the extent that first counter-offers thrown by charterers were gobbled up instantly by owners.

Rates experienced a rebound for most vessel classes from late August, with MR rates in particular seeing a spike due to the short-lived impact of Hurricanes Laura and Marco affecting US Gulf markets, but a sustained upside was not yet in sight.

Floating storage re-emerges

A notable trend in the third quarter was the return of the rush for floating storage. At the beginning of September, a number of Long Range (LR) tankers were asked for options for floating storage for ultra low sulfur diesel (ULSD) for up to the remainder of the year. But with flickering demand and uncertainty about a workable contango, traders could shift stances on this quickly.

The rise in floating storage requirements was indicative of a market that remained oversupplied, which spells weaker prospects for incoming US Gulf-origin ULSD, dampening sentiment for what has been a weak trans-Atlantic market back-haul market.

Should contango still favor floating storage, LR owners have the dilemma of locking in ships for floating storage in a quarter that is typically strong for them. Weakened prospects in east of Suez markets has deterred shipowners in the west from taking eastbound shipments unless they get firmer rates.

Similarly, charterers that foresee owners pushing for higher indications on floating storage for the upcoming quarter could release vessels from storage if the economics do not fit them, which could potentially push a high volume of vessels back out into the market.

All depends on the how the coronavirus pandemic develops, but shipowners acknowledge this fourth quarter will spell slimmer volumes than previous years.

—Chris To

AMERICAS: OWNERS PRIORITIZE USGC POSITIONING AHEAD OF Q4

- MR owners hoping for typical October freight hike
- Low Sept. refinery runs could stifle exports
- USGC naphtha arbitrage to Asia, Brazil remain open

Shipowners with Medium Range tankers in the Americas are focusing on keeping positions close to the US Gulf Coast (USGC) basin for the beginning of the fourth quarter in hopes that seasonal strength typically experienced in October will reoccur, though effects of the coronavirus pandemic and petroleum product demand destruction make for uncertain times ahead.

In the first half of September, MR shipowners showed resistance to offering on long haul voyages, particularly to West Coast South America and Asia, despite nearing the lowest levels observed in 2020 on most USGC-loading routes.

"It's pretty evident that people don't want to go long, they just want time fillers," a shipbroker said.

In 2019, MRs and Long Range 1 tankers both saw freight jump almost 79% in the first half of October as refineries returned from planned maintenance and the shipping industry prepared for the implementation of IMO 2020. Historically, the winter months have been stronger for Americas clean tanker routes as product exports increase out of the USGC.

Volatility from the effects of the pandemic made for more dramatic freight spikes in 2020, particularly in the third decade of April when freight reached the highest levels recorded by Platts on multiple USGC-loading routes. The slow return of economies in Latin America and increasing demand there could support clean tanker rates and US exports of products, though lower levels of refinery utilization could stifle cargo supply to tankers.

S&P Global Platts Analytics forecast the combined planned and unplanned refinery outages in the USGC to be slightly over 2 million b/d through September, or almost one quarter of the region's total crude processing capacity.

Naphtha to provide export cargo reprieve?

As diesel stocks in Europe overflow onto floating storage and demand in Latin America remains limited amid stay-home and social distancing protocols, typical trade lanes for clean tankers loading in the USGC have cut flows significantly. However, naphtha supply in Asia and Latin America tightened at the end of the third quarter, spurring an increase in East-bound fixing from the USGC.

With freight having fallen to near-year lows in September, and continued reluctance for EMEA owners to make the journey out east and pursue western shipments, the arbitrage opportunity to Asia for light naphtha barrels opened, and more than 300,000 mt of cargo were reported on subjects or fixed on LR1s alone with discharge options to North Asia. MR owners were more hesitant to make the voyage however, with the MR market in Asia so oversaturated and weak.

Naphtha sources said that interest for naphtha into South America, particularly into Brazil for gasoline blending, was increasing, and charterers were reported looking for MRs and LR1s alike to carry naphtha cargoes to both regions in early October dates.

Long-haul fixtures into East Coast South America and Asia would cycle out tankers from the USGC pool and keep tonnage from piling up too much. However, with the arbitrage to Asia delicate, it is uncertain how long the opportunity will last.

—Marieke Alsguth

Chemical tankers

PROSPECTS IMPROVE AMID RESILIENT PETROCHEMICALS DEMAND

- Owners place hopes on robust Q4 demand
- Potential bearishness from 'swing tonnage'
- Freight rates likely to rise steadily

Having withstood a softening in freight rates in the third quarter, chemical tanker owners are now pinning their hopes on resilient petrochemicals demand and the approaching holiday season, with Q4 expected to be this year's strongest period amid a normalization of demand.

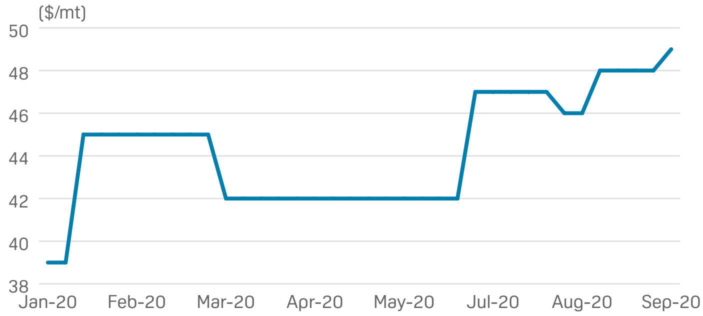
But a more bearish outlook for clean tankers could also translate into more of these ships picking up petrochemicals cargoes — termed swing tonnage — and increasing competition for parcels.

After a period of excess capacity in the chemical tankers arena in 2019, this year continued to be precarious for owners, as the coronavirus pandemic brought industrial production shuddering to a halt and demand for end-user products collapsed.

However, overall petrochemicals demand proved to be somewhat more resilient, and a decline in spot chemical tanker rates during the first half of the year was offset by collapsing bunker fuel prices.

"The fundamental demand for chemicals is much more stable than for products," said Soren Lehnert, vice president of strategic planning at MOL Chemical

ROTTERDAM-MED 5 KT WEEKLY



Source: S&P Global Platts

Tankers. "Chemicals have very wide applications and are basically used in everything you see around you... the end usages for chemicals are non-cyclical in a macroeconomic sense."

On the Northwest Europe-Mediterranean route, basis 5,000 mt of liquid chemicals — which include petrochemicals used for manufacturing and construction, as well as MTBE — shipping rates recovered over the third quarter and were assessed at $49/mt on Sept. 11, up from a year low of $42/mt between late March and June, according to data from S&P Global Platts.

Given the stability of demand from end-users, the chemical tanker market has observed less volatility than those of clean and dirty products, one shipbroker said.

"Freight rates have moved, but swings are of a few dollars at most," the broker added.

According to S&P Global Platts Analytics, olefins sector margins will remain bullish throughout Q4, amid improving demand, while the outlook for the aromatics sector remains more subdued as new capacity adds to surplus woes.

"The build-up in storage from China has affected slightly demand, but China continues to pull from the European Continent," another shipbroker source said. "We expect Q4 to be slightly better, as it is usually the strongest quarter."

Seasonal strength in winter in the petrochemical market due to stronger Chinese manufacturing ahead of Christmas in the West is giving market participants hopes of being able to close the year with stronger results.

—*Charlotte Bucchioni*

LNG

LNG TANKER SPOT RATES SEEN RISING, BUT NOT TO 2019 LEVELS

Sentiment in the liquefied natural gas shipping spot market turned bearish abruptly in the first half of September due to supply disruptions, and while values are still expected to rise gradually over Q4 they are unlikely to reach 2019 levels due to a lack of bullish news and low prices for LNG.

LNG spot shipping is near three-year lows. The Atlantic and Pacific shipping rates averaged $40,000/day and $35,000/day respectively from July 1 to Sept. 11, close to levels last seen in 2017 when they were $39,000/day and $38,000/day respectively. The low shipping rates mirror the LNG cargo market, where the JKM, the benchmark price for LNG, is in the low-$3s/MMBtu level.

The final quarter is usually a period when LNG shipping prices are at their highest, in line with the cargo market. The Atlantic and Pacific LNG shipping rates averaged $105,000/day over Q4 2019, compared with an average of $64,000/day over Q3 that year, an increase of 71%.

Several chartering sources said spot shipping rates were unlikely to reach six figures as they did last year.

"If things don't change we won't get to six figures as there is no bullish news, but things can change quickly given thin supply in the Atlantic," said a charterer.

CNOOC was heard to have cancelled a vessel requirement starting early November for a charter of 65-85 days due to excessively high offers, with average levels offered around the $70,000s/day, a shipbroker said.

When asked how Q4 LNG shipping will go this year, a shipbroker answered "It's going to be OK. Not crazy but the market will increase gradually."

Despite the low Q3 2020 average shipping numbers, Atlantic and Pacific shipping rates did increase from mid-August: from $40,000/day and $35,000/day respectively on Aug. 14 to $55,000/day and $47,000/day by Sept. 2. However, since then, the Atlantic shipping rate had been assessed lower at $50,000/day on the back of uncertainty due to production problems at the Cameron facility in the US Gulf due to Hurricane Laura which hit the region late August. The Pacific shipping rate has also fallen to $46,000/day as Chevron pushed back the completion of repairs at the Gorgon LNG plant from early September to October.

"Sentiment was bullish running into September but an unfortunate hurricane in the US Gulf turned sentiment," said a shipowner source.

Open arbitrage

However against the backdrop of uncertainty in the prompt, an arbitrage window to place US LNG cargoes into Europe or the Far East is open along the curve. The JKM for November delivery and December paper was assessed at $4.65/MMBtu and $5.05/MMBtu Sept. 11, against $2.305/MMBtu and $2.783/MMBtu for October and November basis Henry Hub. TTF European gas benchmark price for October and November delivery was assessed at $3.634/MMbtu and $4.302/MMbtu. This led to a JKM versus Henry Hub spread of between $1-$1.1/MMBtu and TTF versus Henry Hub spread of $0.75-$0.96/MMBtu, after accounting for freight cost from the US Gulf to Japan at $1.20/MMBtu and US Gulf to Europe at $0.56/MMBtu.

The open arbitrage window is also reflected in higher nominations for October US LNG cargoes, as only nine cargoes were heard cancelled. In contrast, 12 cargoes were cancelled in May, while for June to August loads 35-45 cargoes were heard cancelled each month. Twenty-six cargoes were cancelled in September. These cargoes were not lifted as they did not price profitably into Europe and North Asia.

Despite the gas spreads, a chartering source pointed out that the option to charter a vessel to float a cargo to take advantage of timespreads has become less attractive, adding that Austria's OMV, who had chartered a BP vessel to do just that, was heard trying to relet the vessel.

A separate trading source said that despite an open arbitrage, a scenario whereby Europe instead of the Far East becomes the optimal destination for Atlantic cargoes could be bearish for shipping due to a lower tonne-mile. Shipping supply would be higher as they would perform shorter intra-Atlantic voyages, instead of a longer cross-basin voyage.

—Wyatt Wong

Containers

CONTAINER FREIGHT MARKET BRACES FOR TUMULTUOUS Q4

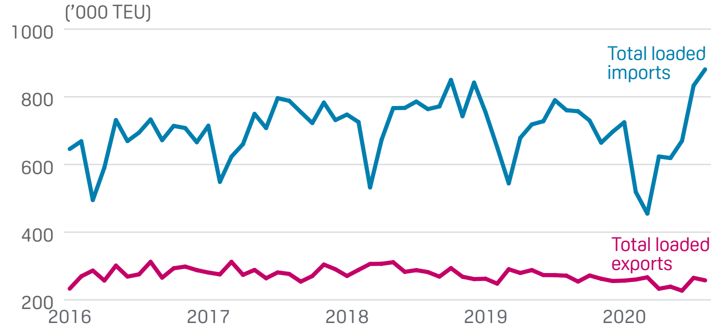
- Trans-Pacific rates expected to fall from all-time highs
- More void sailings coming up past China's Golden Week
- Market demand hinges on coronavirus-related lockdowns

The container freight market is braced for a tumultuous final quarter of 2020, with demand expected to tail off following the Golden Week in China and carriers already announcing multitude void sailings going into this period.

These void sailings had been a mainstay of the container freight markets during the middle part of the year, as carriers battled falling demand due to the coronavirus pandemic, which meant they were left with a simple choice — reduce capacity drastically through void sailings, or face collapsing freight rates. Unsurprisingly they chose the former. However, the effectiveness of this decision caught many market participants off guard.

"Everyone wants to move their product before there is a lull at Golden Week — I think it will all stop after Golden Week this year, Q4 will be really quiet," said a US-based freight forwarder.

CUMULATIVE LOS ANGELES AND LONG BEACH PORT VOLUMES



Source: Port of Los Angeles, Port of Long Beach

Following the careful capacity management from carriers, there was a large demand spike in the third quarter of the year, with shippers scrambling to move product from north Asia, coupled with significant demand for time-sensitive goods such as PPE and home-working equipment. This left rates rising significantly, in particular on trans-Pacific trade lanes, which saw all-time highs reached and then broken again as demand returned.

With this unprecedented spike in demand and logistical delays as a result of many market participants still in various lockdowns, or sheltering-in-place, there have been some delays in returning containers to destinations. As a result, the issues regarding stronger demand levels have been heightened by the lack of empty containers in north Asian ports, meaning bottlenecks developing.

This in turn caused some issues where carriers had to employ sweeper vessels to try to clear some of the backlog, and shippers expressed dissatisfaction that many of their previously booked cargoes had been rolled in favor of spot cargoes booked at much higher rates.

Easing logistics

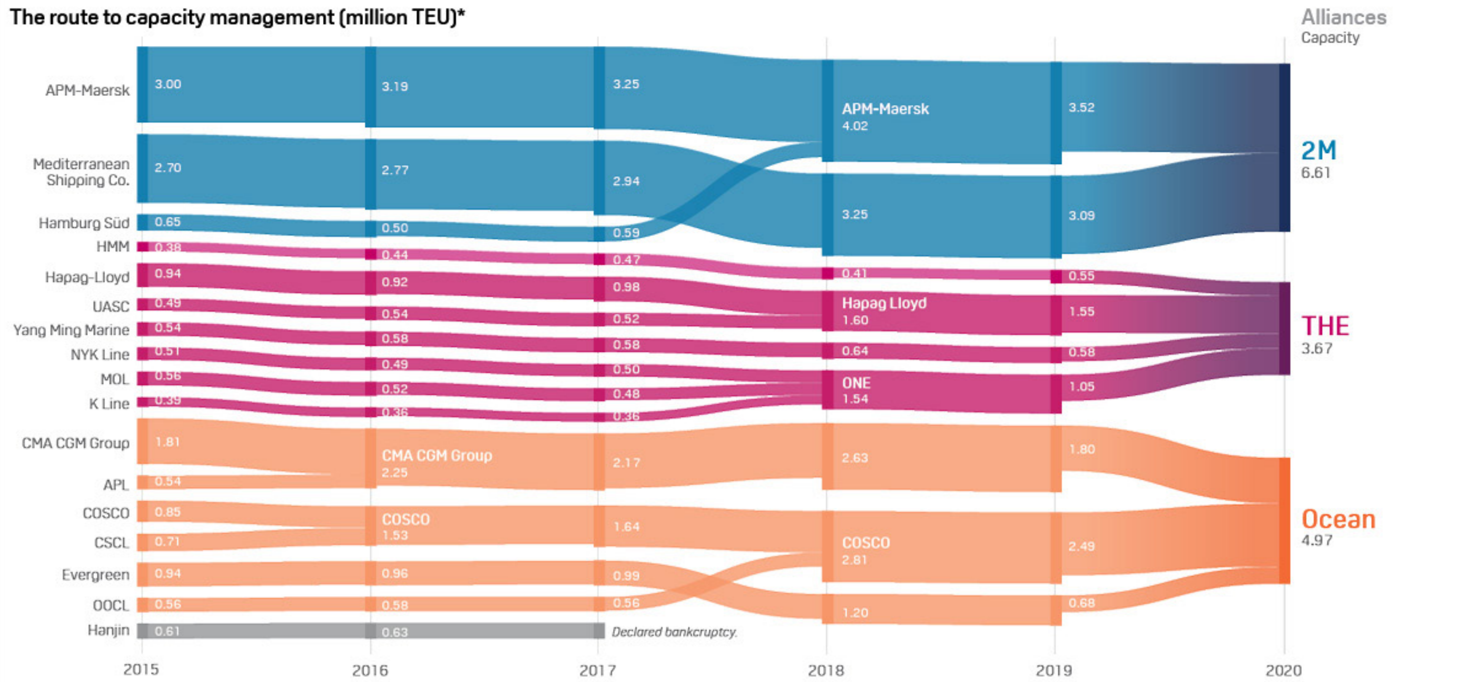
Despite these logistical issues starting to ease and the number of upcoming voids rising, market sources are split on which direction freight rates would take for the remainder of the year.

"Everyone's wondering how much a lack of holiday cargo after Golden Week will affect rates. PPE, ecommerce and home commodities will continue to drive demand up. If that continues to rise while holiday cargo comes down, we'll see if it absorbs it and ends up being a wash," said one North American logistics specialist.

This is also the case on the Asia-Europe trade lane. However, as with trans-Pacific trade, this demand spike is expected to be short-lived, with demand slowing into the festive period, as it does most years in container freight.

CONTAINERS IN CONTROL: FLEET CONSOLIDATION HELPS CONTAINER LINERS SUPPORT FREIGHT RATES

COVID-19 has sent seismic waves through global trade and all the goods transported around the world on container ships. However, carriers moved fast and decisively to remove volumes and reduce overcapacity in the face of weaker demand which has supported freight rates throughout. This is thanks to consolidation in the carrier industry in recent years which culminated in three key shipping alliances able to manage capacity.



Carriers void over 400 sailings this year

- **Blank sailings** now reducing on better demand
- Schedule **reliability on key routes improving**
- Fragmented market was **unsustainable** amid high fixed costs
- In 2017 **alliances** formed, comprising **80%** of container market
- Carriers now share vessels, **limit volumes** to support freight rates

*Annual changes to total capacity reflect new vessels coming online.

Source: S&P Global Platts

"Golden Week could see a slump to the end of the year, especially if output is slow to return as it was at Chinese New Year in March — Christmas this year will also see low volumes — people won't have much disposable cash so I doubt Santa will visit too many people as everyone tightens their belts. As such, we aren't really expecting a stellar end to the year," said a carrier source.

Some however are still seeing the potential for rates to remain level into the end of the year, with the need for short-term goods still prevailing.

Retail weakness

The sector that has seen most real degradation in demand this year has been the retail sector, with many market participants staying away from shops — in particular clothing retailers — at the expense of imports in this sector.

The pandemic has seen a sharp uptick in online sales, but this has meant that traditional shops and outlets have allowed their stocks to draw down considerably and have canceled orders.

There was some reversal in this in July and August, but concerns remain over the speed of the recovery in the Chinese exporting industries following Golden Week.

Chinese New Year at the end of January saw the real start of the world's coronavirus-related issues, with China taking several months to return to full exporting capacity following the initial lockdowns, and many fear there could be a second spike of infections following the Golden Week celebrations, which would curb volumes.

Over the course of the year, the impact that Chinese exporting demand volumes has had has been clear, with March the lowest for imports into the US, on the back of the low exports from China during February.

Data from the ports of Los Angeles and Long Beach in California showed a cumulative decrease in imports of 20% and 16% in February and March, compared to a year earlier. However by August, volumes had increased by 15% on the year, showing the real strength of the trans-Pacific trade lanes in recent weeks., the impact that Chinese exporting demand volumes has had has been clear, with March the lowest for imports into the US, on the back of the low exports from China during February.

—*George Griffiths*

In depth: marine fuels

METHANOL MAY BE GAINING TRACTION AS ALTERNATIVE SHIPPING FUEL; IN COMPETITION WITH LNG

- November approval key to greater methanol in ships
- Renewable methanol answers longer term clean fuel targets
- Supply, price challenge hangs over cleaner methanol solution
- Methanol's advantages could see it emerge from LNG shadow

Producers hope methanol will carve out a sizable niche in the marine fuels market, assuming the International Maritime Organization in November formally approves its use.

Like its close competitor LNG, methanol offers a cleaner alternative to oil-based bunker fuels but fails to answer stricter climate change targets. A greener version is available, but supply and price are stumbling blocks.

Methanol has plenty of advantages. It is a versatile colorless liquid, produces negligible sulfur and particulate matter emissions when ignited, and has reduced carbon dioxide emissions compared with conventional fuels.

Methanol could also be an option on price, even if it has lost out to the glut in LNG and oil-based shipping fuels in 2020 which has kept competition prices in check.

Despite lower energy density, methanol prices had been competing with marine gasoil and low sulfur fuel oil until the oil price crash this year.

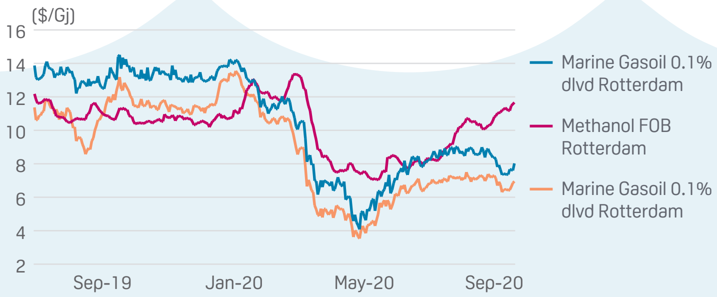
According to S&P Global Platts calculations, European methanol prices per energy volumetrically have been above $10/GJ since July versus marine gasoil hovering around $6.50-$7.50/GJ, and 0.5% sulfur bunkers between $7.50-$9.00/GJ.

Compared with some alternative fuels such as LNG, methanol is easier for crews to handle and ships could be retrofitted to use it rather than new ones needing to be ordered.

However, the big challenge for methanol is supplying enough of its cleaner renewable version. To reach 2050 clean fuel targets, synthetic or renewable methanol derived from sustainable biomass or renewable hydrogen and recycled carbon dioxide will need to be made available in significant quantities. Conventional methanol comes from natural gas and may only work as a stopgap measure for shippers.

The International Maritime Organization has adopted an initial strategy on the reduction of greenhouse gas emissions from ships, looking at reducing total GHG emissions by at least 50% from 2008 levels by 2050, and CO2 emissions per transport work by at least 40% by 2030.

METHANOL LESS COMPETITIVE THAN CONVENTIONAL FUELS AFTER OIL CRASH



Source: S&P Global Platts

Renewable methanol costs can be even higher with greater complexity to produce on a mass scale. The renewable methanol price in Europe can be around three times or higher the third quarter contract price of conventional methanol, or Eur650-700/mt.

Currently, industrial scale production of ultra-low carbon intensity methanol is available in Canada, Iceland, the Netherlands and Sweden. New projects have been announced and its supply will continue to grow, with at least 24 companies in the research and development phase globally, according to the Methanol Institute.

LNG's shadow

Methanol so far is in LNG's shadow. The latter has around 400 tankers on the sea compared to a meager 30 being run on methanol.

LNG is evidence of what the right support can achieve. Some oil companies, including Shell and Total, are already pouring significant funds into developing delivery infrastructure and lobbying in its favor. The current low gas price is also making it look attractive.

Like methanol, LNG alone will struggle to deliver big enough GHG savings to comply with the 2050 target. As a result, bio-LNG, derived from biomass, is being blended with it and may be viable if supplies become widely available by the end of the 2020s.

From a regulatory standpoint, the industry is still awaiting formal approval on the use of methanol as a marine fuel, which will further boost interest.

The IMO completed draft interim guidelines for the safety of ships using methanol as fuel in 2019 and was expected to get the greenlight in May, but the final decision has now been delayed to November due to the coronavirus pandemic.

The technical groundwork is already being put in place as it is felt charterers will need to know how to bunker it an transact it based on an approved industry standard, said Chris Chatterton, chief operating officer at the Methanol Institute.

"Methanol is as easy if not easier to bunker than marine gasoil," Chatterton said. "It is a single molecule and not a blend of various compounds, quality testing should be relatively straightforward too."

In S&P Global Platts Analytics' long-term outlook, non-petroleum marine fuels account for 11% of total bunker demand by 2040, with almost all of this accounted for by gas-based fuels.

— Lara Berton, Paul Hickin

INTERVIEW: HYDROGEN, AMMONIA LIKELY TO WIN CLEANER SHIPPING FUEL RACE - EURONAV CEO

- Ammonia is shipping's solution for the future
- Sector reaching limits on fossil fuel improvements
- No one solution; hinges on voyage length, sector type

The concept of a one-size-fits-all shipping fuel is in the past, with hydrogen and ammonia the leading candidates to meet cleaner fuel goals, shipping company Euronav's CEO Hugo De Stoop (pictured) said.

"The winners have already been decided and that is going to be either hydrogen or ammonia," De Stoop told S&P Global Platts in an interview on Sept. 7. "The only problem that we have that we don't know when it's going to be ready and available," he added.

"I'm speaking about an engine that is really capable of burning efficiently ammonia in a safe way because ammonia is a very toxic gas," the tanker leader said, noting that infrastructure is crucial too.

"The world produces a certain amount of ammonia. It uses fertilizer, but the way it is produced is brown, meaning that we're using energy to use it, which is coming from fossil fuel. So it's a little bit ridiculous to be proud to burn ammonia or hydrogen on board your vessel" if this is the situation.

He noted there are greener ways to produce it, such as if your electricity is green and has been using renewable energy then you can co-share. He added it makes sense for the bigger vessels on longer voyages.

"Anywhere from 40 to 100 [days voyage]. It is the solution that we will have in the future," he stated.

"However, it's going to take time to put the infrastructure in place, and it's going to take time to finishing the development of the engine, which I understand we are nearly there, will take about 2 years," he added.

The International Energy Agency has also stated in a new report that biofuels, ammonia and hydrogen will meet more than 80% of shipping fuel needs by 2070, using around 13% of the world's hydrogen production, with ammonia the outright leader. "More than 60% of the emissions reductions in 2070 come from technologies that are not commercially available today," the Paris-based agency predicted.

Cleaner fossil fuel limits

De Stoop believes the industry is close to “hitting a brick wall” with current technology and getting the most out of oil-based fuels.

“In the meantime, do we try to be even more efficient on the existing technology, and it seems that we have reached a limit, and maybe there's another 5%, 7%, potentially 10% saving on the consumption and therefore emissions,” he said.

De Stoop warned of the risks of adopting LNG or methanol, even with biofuel components as the industry looks to make good on decarbonization targets.

The International Maritime Organization, which capped the amount of sulfur in fuel oil at 0.5% from Jan. 1, 2020, from 3.5% previously, has a strategy of cutting carbon dioxide emissions per ship by 40% from 2008 levels by 2030. It then wants to cut the shipping industry's total greenhouse gas emissions by 50% by 2050.

While LNG has lower carbon emissions, it emits methane through the supply chain and De Stoop is unsure there is the political will to tackle the leakage issue. He also drew parallels with the industry’s risks with scrubbers, equipment that removes sulfur from fuel oil so its engines can run cleanly, but which he said has had issues with regulation and economics.

“We all order LNG and then 5 years later, someone finally admits that is polluting more because we have not been able to solve the leakage problem, and everybody goes back to square one,” undermining the environment and this would “not be the right thing,” De Stoop explained.

With methanol and biofuel options, De Stoop raised the question of economics again and noted that with limited supply, shipping has to be honest with itself and how it competes in the greener fuel market. He gave the example of the airline industry which may have to lean much more heavily on the biojet solution given the difficulties of suitable alternatives and if other industries demand it too then the price of biofuels will be too expensive.

De Stoop also pointed out that with shipping itself, different cleaner fuels will suit certain sectors, differentiating between the size of ship and length and type of journey.

“We do long journeys so we need a fuel that ... does not take away capacity from the fuel we need to transport. It’s going to be the same for the container guys. But if you look at ferries they run for just 2-3 hours and then they stop and they can run on batteries,” De Stoop said explaining the calorific value of a voyage.

“So it's very important not to have, or not to believe that we're going to have one solution across all shipping like we have at the moment. Tomorrow, everybody will have to find its own solution, which makes economic sense, locally and globally,” the tanker boss said.

S&P Global Platts Analytics believes alternative shipping fuels are still in the early stages of development and are expected to take significant time to displace oil. In Platts Analytics’ long-term outlook, non-petroleum marine fuels account for 11% of total bunker demand by 2040, with almost all of this accounted for by natural gas-based fuels.

"Alternative fuels are likely to be only one of a range of carbon reduction strategies employed by major shippers, with the others being improved fuel burn efficiency rates (most famously slow steaming, but also direct carbon capture, biofuels, batteries, fuel-efficient lubricants, and LNG bunkering)," Platts Analytics noted.

— Paul Hickin

BUNKER MARKET LOOKS TO FRAGILE DEMAND, PRICE RECOVERY

- Tentative demand, price recovery expected
- Global VLSFO availability and port capacity increases
- Scrubber use continues despite unfavorable economics

The glut in low sulfur fuels has been a double-edged sword for the shipping industry. It muted the impact of availability and compatibility concerns at the cost of lower prices, which have mirrored the wider crude market since May.

Demand for very low sulfur fuel oil is set to recover slowly in line with increasing confidence in the industry’s new fuel of choice, according to some experts.

Crude prices have plateaued around $40/b for several months as a tentative recovery in demand has stalled and the OPEC+ producer alliance has eased off on its output cuts. A similar situation has occurred in Rotterdam’s marine fuels prices, which have steadied around the $300/mt mark in the third quarter so far.

S&P Global Platts Analytics predicts crude oil prices at $44/b by the end of the year and $50/b by end-2021, suggesting any improvement in VLSFO prices would also likely be slow going. Low refinery margins and spikes in COVID-19 infection rates have weighed on the recovery.

Some industry watchers, while downbeat on demand recovery prospects over the next 6-12 months, highlighted how sturdy bunker demand has been given the way shipping has continued to operate amid the coronavirus pandemic and been responsible for 90% of global trade.

"Demand impact for the bunker market has been far less than for other sectors," Steve Christy, at Navig8, said in a research note. "Fuel oil demand [is] running at around 0.5 million b/d below 2019 levels through this year and next year."

But the weakness in demand has allowed the industry to come to terms with VLSFO.

Technical issues

The 0.5% sulfur International Maritime Organization-compliant fuel had given industry participants sleepless nights over whether there would be compatibility issues, given the various blends available, and whether they would be able to get hold of the fuel at all ports.

Euronav CEO Hugo De Stoop told S&P Global Platts in a recent interview that, while it was a change many supported, it has led to some technical issues.

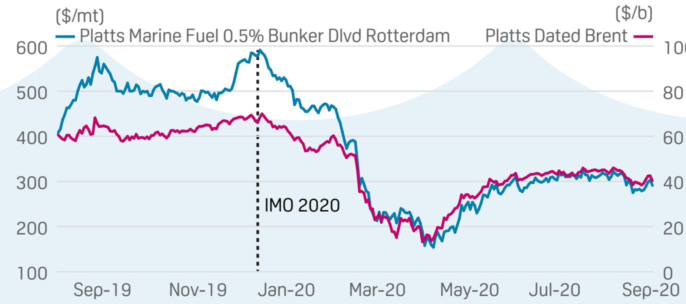
"A lot of people are still suffering from it. We may have suffered a little bit less because we were able to accumulate the product that we tested before putting into our engine," the tanker boss said. "Normally, the way to look at it is that you go to the pump station with your ship and you are provided something that has a certificate of quality, but unfortunately, the certificate of quality does not really match the new fuel, it's more a match of the old fuel."

But he noted that VLSFO is a "logical fuel", compared with high sulfur fuel oil, the previous fuel of choice, given regulatory and cost concerns over using the necessary scrubber technology to make the latter viable.

Much of IMO 2020's impact has been muted by the global coronavirus pandemic. But a new normal is slowly emerging and, with it, greater global availability and capacity at ports, according to industry sources.

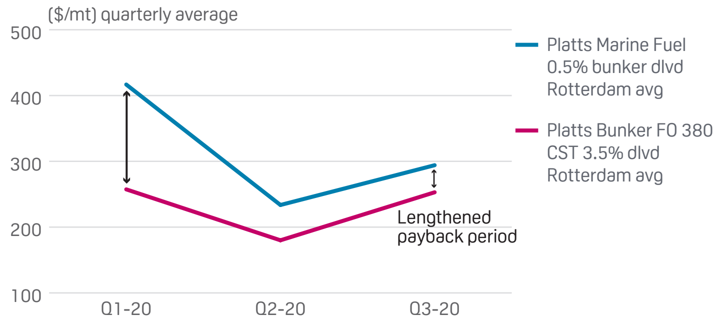
ExxonMobil has made its fuel available at an increasing number of ports as port capacity grows, the company's marine fuels technical adviser, Armelle Breneol, said at the Petrospot Summit.

MARINE FUEL PRICES MIRROR THE WIDER OIL COMPLEX IN RECENT MONTHS



Source: S&P Global Platts

PAYBACK TIME ON SCRUBBER INVESTMENTS LENGTHENS



Source: S&P Global Platts

Amid changes in infrastructure and supply, bunker demand centers have not changed due to IMO 2020, sources say. But competitive pricing could challenge that.

Bunker prices for VLSFO at the smaller bunker port in Lisbon have rivaled those at the nearby Mediterranean hub of Gibraltar during Q3 so far, averaging $329/mt while Gibraltar has averaged $333/mt, Platts data shows.

As global availability of low sulfur fuels increases, HSFO supply has tightened, creating something of a supply-demand mismatch.

Even in the new low sulfur environment, HSFO continued to account for 25% of bunker sales at Rotterdam in the first half of this year, and 23% of Singapore's August sales, data from Rotterdam port authority and the Maritime and Port Authority of Singapore shows.

Analysts expect HSFO to gain more even traction for the rest of 2020, as more ships install scrubbers to comply with the sulfur cap rules.

Scrubber installations in the VLCC and Capesize sectors amount to 30% of the fleet, with that likely to grow to 35% by the end of the year, BIMCO chief shipping analyst Peter Sand said.

This compares with a considerably shorter payback period in Q1 of between one and two years, when the spread averaged $159/mt. There are also questions over whether scrubbers would continue to hold up if the regulatory environment changes quickly.

The range of fuel options for shipowners is likely to further increase as green regulation changes.

In what can only be described as a dramatic year for the marine fuel market, some are hailing 2020 so far as a useful indicator of the pace of change still to come.

— Britt Russell-Webster, Tom Washington, Paul Hickin

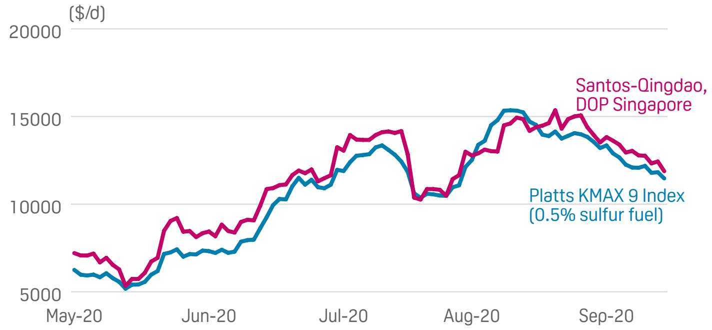
Dry bulk

PANAMAX

Kamsarmax sector switches its focus as the seasons change

- Lackluster coal markets leave grains as best hope
- Black Sea grains trend against seasonal norms
- The Black Sea stumbles mid-season

SANTOS/QINGDAO vs KMAX 9 INDEX



Source: S&P Global Platts

During Q3 and Q4, the Black Sea is a pillar that supports the market. With both corn and wheat cargoes exported to buyers in the Mediterranean and the Far East, demand for ships is high, pushing time charter hire rates for the ships up to 2020 highs.

The recent launch of the Black Sea to Asia 60,000 mt, grains route assessment highlighted the dynamic movement of the grains from the Black Sea to China. China's demand for grains shows no signs of weakening. To satisfy the demand, both the US Gulf Coast and Black Sea regions are expected to increase exports and hence command high voyage rates. Platts Analytics estimates the 2020-21 Ukrainian harvest at 37.4 million mt, up 4% on year and up more than 60% from its 2015-16 volume of 23 million mt.

However, despite positive sentiment, fixture activity has recently fallen in the region, trending against seasonal norms as cargo volume dipped end of Q3. Some grains traders and charterers may simply withdraw their cargoes from the spot market. The Black Sea is increasingly seen as a closed shop to spot market participants, as long-term contracts of affreightment (CoAs) are concluded off-market.

"About time the Black Sea woke up, the region has the numbers but not the volume," a shipbroker source said.

Market participants are also concerned about the oversupply of tonnage in the region. Owners are moving vessels from the South Atlantic to the Black Sea creating an oversupply, sources said. The Odessa-to-Qingdao 60,000 mt grains route fell $6.50/mt from $35/mt on Aug 27 to $29.5/mt on Sept 11. However, there is optimism for stronger voyage rates as we move through Q4, sources said.

US Gulf Coast optimistic for Q4

The switch from the East Coast of South America region to the US Gulf has seen US Gulf fronthaul freight rates for grains rise significantly mid-August, up $2.25/mt to $44.50/mt between Aug 14 and Aug 17. This uptick has come following more cargoes being offered in the market. However, cargo volumes fell approaching Q4 and tonnage increased, forcing a drop in voyage rates, according to sources. As we head towards October, exports from the US Gulf Coast region are expected to increase again, tightening the market and pushing up voyage rates in Q4.

Into this mix are added the ongoing US-China trade tensions that trouble the market. However, with the recent announcements that China will honour Phase One of the deal with the US, it appears that the stronger rates in the US Gulf are still to come.

The coronavirus pandemic has undoubtedly caused substantial disruption to the shipping industry. Recovery in the market has been uneven, leading to unexpected trends. With shipments being delayed – some indefinitely – uncertainty has disturbed and disrupted predictable seasonal trends. However, delayed harvests and virus-hit ports have not been able to entirely upend the global seasonality of the grains freight markets.

Conversely, as we enter Q4 the East Coast of South America is seeing a slowdown in soybean volumes following the end of the harvest season. As the supply dwindled, freight levels fell even as spot tonnage lists contract.

Atlantic coal market struggles to revive

The coal market within the Atlantic was perhaps the most severe casualty of the coronavirus pandemic. Even prior to the pandemic, the coal market was feeling pressure from European nations as renewables and greener fuels were preferred to coal as an energy feedstock. As a result, coal usage in Europe was in decline long before the pandemic took hold. The coronavirus pandemic disrupted all forms of energy demand, yet as others begin to recover coal is still struggling.

Energy demand typically spikes mid-summer as warmer weather increases air conditioning use, improving demand for coal during this period. However, after the brief increase in fixture activity during August the coal market struggled to maintain traction in Europe.

"Energy consumption increased in Europe, hence the push in the coal market; however, gas and renewables were the main source," the first shipbroker source said.

As we look forward into Q4, colder temperatures could encourage coal movement, although as it stands, trans-Atlantic coal voyage rates may remain subdued for some time to come.

Market participants are providing mixed views on the future of coal. As current restriction of imports into India and China affect the global market, for example, concerns of oversupply are appearing.

“Coal is need to support the Panamax market otherwise vessels will ballast to grain producing regions and the market will be flooded with supply,” EastGate shipping said.

Nevertheless, as the global economy recovers from the coronavirus pandemic, demand for coal should increase, sources said.

“In the long-term China and India can’t sustain domestic-supply,” the first shipbroker source said.

—Callum Sinclair

SUPRAMAX & HANDYSIZE

Supramaxes face troubled Q4 despite resurgent US grains exports

- A disappointing Black Sea grains season continues
- US-China grains trade accelerates despite tariffs

Each year in the Atlantic basin, the fourth quarter is traditionally the strongest season for dry bulk time charter rates.

Usually, this is because the US and European grains seasons coincide – as ships in the North Atlantic and Black Sea carry grains cargoes into the Pacific, spot tonnage gets hard to come by. With demand for ships high and supply levels low, freight rates are typically pushed up to yearly zeniths.

However, 2020 has proved that nothing can be taken for granted. Between the ongoing (and sometimes volatile) trade tensions between the USA and China and a below-expected wheat harvest in Europe and Southern Russia, can the Atlantic dry bulk markets expect their usual yearly payday in the run up to 2021?

Black Sea Continues To Weaken

In the Supramax markets, Q4 is typically strongest on the US Gulf Coast and in the Black Sea. Wheat, corn, and soybean cargoes underpin demand for the smaller-deadweight ships, and charterers seek out the most fuel-efficient vessels for these long-duration exports. Ultramaxes – the 60,000-66,000 dwt modern, economical design – are preferred wherever possible, as rising global prices of the IMO-compliant 0.5%-sulfur marine fuel (VLSFO) make fuel consumption critical to traders’ arbitrage calculations.

From the EU and the Black Sea, 50,000-55,000 mt wheat cargoes to Southeast Asia or the Far East are typically common throughout Q3 and Q4; however, lower-than-anticipated EU yields and increased demand for the larger Panamaxes and Kamsarmaxes in the Black Sea have meant that Supramax grains inquiry for Q3 has been well below the market’s expectations.

According to Platts Analytics, Russia is set to become the world's largest wheat exporter this season as difficult weather conditions marred wheat crop prospects in the EU, most notably in France and the UK. Time charter earnings for a 57,000 dwt Dolphin-type Supramax in the Black Sea have trailed Q3 2019 by an average of 12.5% through Q3. However, as demand continues to weaken across Europe, we could expect to see a slower Q4 for the Supramax/Ultramax sector.

Looking further ahead, dry weather in southern Russia is expected to facilitate planting of winter grains for the 2021 crop, said Victoria Sinitsyna, grains analyst at Platts Analytics.

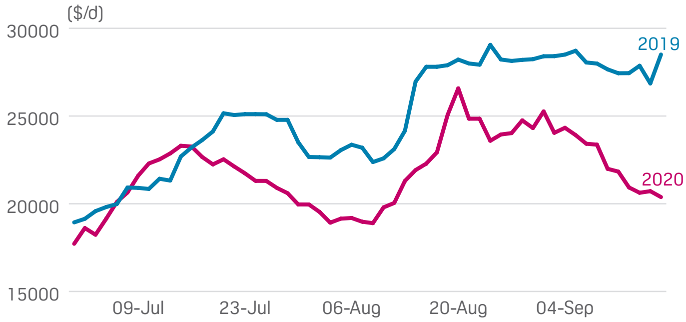
"Weather forecast models indicate some sporadic rains in Southern and North Caucasus Districts in the first week of September, but on average precipitation is likely to remain below normal at least until mid-September," she said.

US Exports Strengthen Despite Trade Tensions

Despite the trade tensions between the USA and China, US-sourced agricultural products continue to flow steadily from West to East. So far in the 2020-21 marketing season – that began June 1 – China's total commitments for US wheat have remained ahead of both Mexico and Japan, traditionally large buyers of US wheat.

China's commitments reached 1.47 million mt for 2020-21, inching to a five-year high, according to a Platts analysis of USDA data. Similarly, US soybeans inspected for export in the week ended Sept. 10 were 1.284 million mt, an 8% drop from the previous week, but 92% above the same week in 2019.

BLACK SEA SUPRAMAX TCE EARNINGS



Source: S&P Global Platts

This is good news for Supramax and Ultramax vessels off the US Gulf Coast. In 2019, the New Orleans-to-Kashima, Japan, 50,000 mt grains route fell dramatically from Sept. 20 through to Nov. 5 – $53/mt to just $38.50/mt – as the political-economical rhetoric between the US and China escalated.

But with grains exports appearing to return to pre-COVID, pre-tariff levels, Q4 2020 is looking healthier for the US Gulf Coast dry bulk markets.

— *Sam Eckett*

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