

Winds of Change

Can the shipping markets recover from the coronavirus chaos?

Shipping special report

July 2020



INTRODUCTION

CAUTIOUS OPTIMISM

Where next for shipping markets? Naturally there are different drivers depending on the commodity and vessel type, but one common theme emerges: cautious optimism that the rest of the year could see an upturn in economic activity after the dramatic slowdown prompted by the COVID-19 pandemic over the past few months. This is, however, tempered by fears of a second wave of infections which could lead to renewed tightening of lockdowns and deepening economic malaise.

For tankers, there is the added complication of the peculiarities of the oil market. Earlier this year, plummeting oil prices paradoxically benefited dirty and clean tanker owners as hire rates soared due to a spike in demand for floating storage given the exhaustion of storage capacity on land. Assuming this situation continues to unwind, more spot tonnage is set to become available in the coming months, potentially pressuring freight rates.

Dry bulk remains subject to seasonality, with many Kamsarmax, Panamax and Supramax owners all pinning their hopes on strong grains export seasons from the US Gulf and the Black Sea during the remainder of 2020. In addition, those Supramax owners involved in the steel and iron ore trades will continue to keep a particularly close eye on economic developments in China and its key export markets, which remain uncertain.

Container shipping, the sector arguably most directly linked to levels of consumer confidence and spending, has seen some signs of recovery but confidence remains shaky. Meanwhile LNG rates plummeted in the first half of 2020 and all eyes will be on the demand for US cargoes over the rest of the year.

Aside from fluctuating freight rates, the additional logistical challenges of a global pandemic should not be forgotten. As infections spread, rules to do with quarantining vessels and limiting crew changes were implemented at various times and varied from port to port, region to region. This represented a new challenge for market participants and, in particular, for seafarers. While many of us have been required to stay at home, spare a thought for those onboard ships who have not had that option.

— [Peter Norfolk](#)

DIRTY TANKERS

DIRTY TANKER MARKETS FACE HARSH REALITY CHECK AS BOOM SUBSIDES

- VLCC rates drop as more tankers are released from storage
- Floating storage volumes start to fall, drawdown likely to take months
- Aframax, Suezmaxes under pressure, rates near operating costs

The tanker markets experienced an extremely volatile quarter as rates on some routes swiveled from record-highs to record-lows, all in a matter of months.

The coronavirus pandemic threw the oil markets off-kilter, having a similar effect on the tanker rates.

But with the oil market gradually rebalancing, and the summer lull kicking in, freight rates are likely to stay largely steady and soft in the coming months. According to S&P Global Platts Analytics, freight rates on the dirty tankers' market will likely remain under pressure until OPEC+ cuts are reversed.

“Spot rates in most vessel groups hit new lows for the year as deeper than expected OPEC+ production cuts and less demand for floating storage have not been sufficient to accommodate surplus tonnage,” it said.

Down to earth

Rates for VLCCs on a WAF-East voyage started the quarter off near record-highs of over \$70/mt as the oil price war coincided with a huge collapse in oil demand due to the pandemic. However, as the OPEC+ group decided to undertake its largest output cut in history in response to the coronavirus-related demand slump, freight rates started their journey back down to earth.

A combination of cargo deficiency, coupled with unresponsive floating storage economies caused support to vanish in the tanker market. In fact, as Dated Brent prices recovered in value, charterers were increasingly reluctant to place the oil on tankers given the less attractive economics.

VLCC WAF-East rates were languishing at one-year lows of \$12.97/mt by the end of June, a fall of over 80% from early-April.

Storage fatigue

After a rush to floating storage in April amid land-based storage exhaustion, floating storage barrels were finally starting to fall, albeit slowly, as a flatter Brent structure amid a measured demand recovery was occurring on the oil market.

The crude and condensate held on floating storage was estimated to have reached a peak of just over 200 million barrels in mid-June, with volumes starting to marginally fall by the end of the month.

This slowdown in storage has started to add pressure on the spot market, and will likely continue doing so in the coming months.

The coming quarter will be characterized by the drawdown in storage on smaller vessel sizes, which will occur over a period of six to nine months. The bulk of Aframaxes on floating storage in the Mediterranean is estimated to unwind in the July-August period, according to market participants. Spot freight is hence predicted to come under further pressure throughout the summer lull.

Some of the barrels in floating storage have been associated with logistical bottlenecks in China, US and Europe. But analysts and shipping sources expect these to ease in the third quarter.

Under pressure

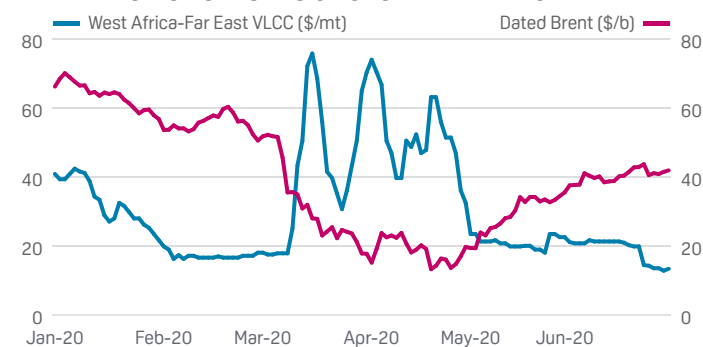
The coming quarter is likely to prove arduous for owners at first, with the potential of a recovery as economic activity resumes after the summer holidays.

While rates were reported averaging bottom levels in all regions West of Suez, signs of recovery have yet to appear, with July volumes so far trending down from an 18-year low June in the VLCC market.

The situation already proved more complicated for Aframaxes West of Suez. The steep fall in Russian crude exports out of the Baltic and Black Sea, along with a decline in Kazakhstan and Azerbaijan loadings, has severely reduced the amount of cargoes on the market.

Owners in the North Sea and Baltic have struggled to cover operation costs in a market where low output from Russia have caused freight rates to plunge to nearly unsustainable levels.

THE DIVERGING FORTUNES OF CRUDE AND FREIGHT



Source: S&P Global Platts

Rates on the benchmark Cross-UK Continent route, basis 80,000 mt, plummeted to over a nine-year low of \$5.29/mt or Worldscale 70 on June 9, S&P Global Platts data showed.

The situation is similar in the Mediterranean, with minimal returns causing owners to sit idle instead of competing for cargoes with negative returns. Sources said rates were likely to stay soft unless there were more cargoes on the market, especially from Libya, whose production remains thwarted due to the civil war.

“The markets are lousy; I wished stayed away [on holiday] and a lot of rumors about Libya reopening,” said a shipowner. “The tonnage is long and the OPEC cuts have kicked in so there are fewer cargoes in general. It is pretty gruesome.”

However, not all predictions are negative for the coming quarter. Given the exceptional character of the first half of 2020, the summer months might see a robust uptick economic activity, spurring demand for crude as inland storage unwinds.

“If oil demand returns quickly, the tanker market will likely be strong once oil inventories have normalized,” analysts at Poten & Partners said in a recent note.

“If demand growth stalls, the tanker market will be affected but, in contrast to most other demand declines in the past, the current tanker fleet has a relatively modest orderbook and an age profile that allows for a relatively quick recovery,” the note added.

— [Eklavya Gupte](#), [Charlotte Buccioni](#)

CLEAN TANKERS

CLEAN TANKER OWNERS PIN HOPES ON OIL PRODUCT DEMAND IN USUALLY WEAK Q3

- Tentative demand upturn could offset seasonal lull
- Bunker fuel prices seen as key risk amid low freight rates

Having withstood a volatile run through most of the second quarter – capped off with rates now at consistent yearly lows – clean tanker shipowners fear the worst for the traditionally weakest third quarter.

However, some shipowners are pinning their hopes on a revival of demand in oil products markets in the months ahead, which could spell a shift away from traditional summer dips in the West of Suez market.

Freight rates in all vessel classes across the globe plummeted in Q2, having experienced record highs at the

end of April. After a high of Worldscale 440 on April 23, UK Continent-US Atlantic Coast rates settled at the end of June at w80 – the lowest level since the third quarter of 2016. In the Handysize market, rates for Continental Europe fell to their lowest levels since S&P Global Platts records began in 2013 at w95 for Baltic-UKC shipments basis 30,000 mt.

The big talking point in the previous quarter centered around floating storage. The upsurge in inquiries for available clean tankers in the wake of the oil price shock placed a high volume of vessels on storage periods ranging from 30-90 days by and large, bringing a climate of tightened tonnage that boosted shipowner sentiment.

But as rates steadily declined toward the tail end of the quarter and more vessels were pushed out into the market, demand has failed to ignite despite lockdowns easing in key hubs across the world.

In tandem, the pinch of increasing bunker fuel prices amid lower rates has placed time-charter earnings ‘in the red’ for shipowners, who are now experiencing losses in terms of operating expenses.

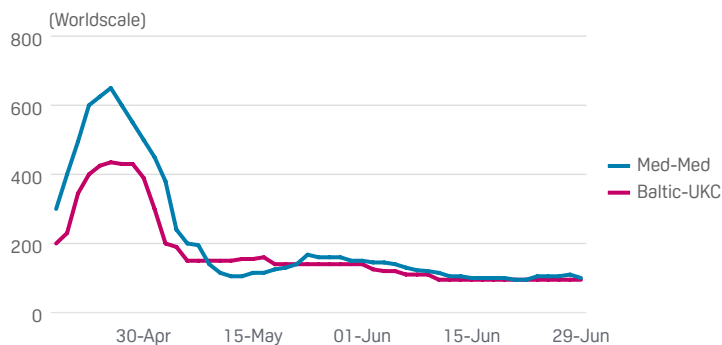
As a result, the market is entering the third quarter with sentiment at rock bottom, with hopes now focused on the prospects of an oil market recovery to stimulate clean tanker markets.

Easing lockdowns key

Despite the third quarter traditionally seeing the lowest yearly rates in clean tanker markets, some participants are hopeful that a year in which the world has been gripped with a global pandemic could steer away from the usual seasonal conditions.

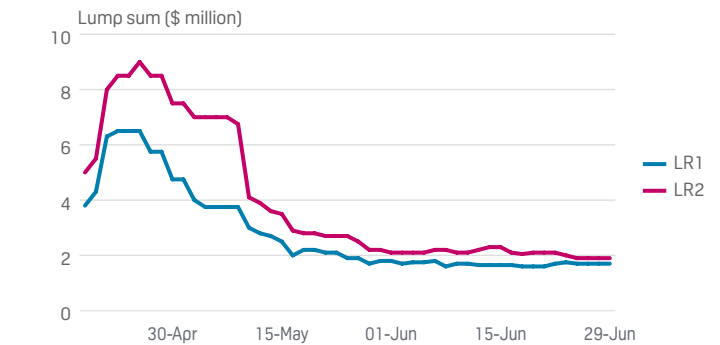
The key lies in the easing of lockdown restrictions in countries across the world, ushering in higher demand for oil products and allowing the pull from onshore storage hubs and floating storage to materialize. Handysize owners in the Continent and Mediterranean are hopeful that inventories will steadily destock to allow for increased

BALTIC UKC 30kt vs MED-MED 30kt



Source: S&P Global Platts

LR2 vs LR1 MEDITERRANEAN-JAPAN



Source: S&P Global Platts

ULSD and gasoil movement through both basins. Increased product flow such as this will likely kick-start the tanker market, with Medium Range tanker owners in particular keeping a close eye on gasoline.

For MRs, pressure will likely continue as they compete against very soft indications in Long Range tanker markets. Previously, MRs enjoyed the luxury of attention from charterers who consistently sought them for longhaul options to both West Africa and the Far East in light of severe tightness in availability for LR2 at the height of floating storage interest in April. LR tonnage has since built up and rates have come down, with the levels of competition among owners for available stems benefiting charterers in the near term.

Looking ahead, market participants have said that reduced tonnage at key basins from the top down will be needed to offset the re-emergence of ships completing their floating storage periods in the second quarter. The recent closed arbitrage for naphtha shipments east will need to re-open to allow options for LR2 to seek longhaul shipments and tie up vessels for the coming weeks.

In addition, gasoline demand needs to reignite for trans-Atlantic shipments. Shipowners are hopeful that the traditional US driving season is showing signs of life despite the coronavirus pandemic, leading to hopes of increased usage over the summer months of ULSD and gasoline, offsetting to some degree against the continued weakness of jet fuel demand. End-user preference could be for driving over flying in the wake of the pandemic as the holiday season approaches.

From a shipowner’s perspective however, the overall sense of desperation has kept rates at their lowest levels as first counter offers are on occasion instantly accepted for cargoes. If these levels continue for much of the third quarter, particularly amid bunker fuel prices rises, this spells danger for the tanker industry.

— *Chris To*

DRY BULK: PANAMAX

ATLANTIC PANAMAX MARKET HIGHLY POSITIONAL IN Q3

- Time charter volatility extraordinarily high through Q2
- Grain export sites move North to US Gulf Coast, Black Sea

The Panamax/Kamsarmax segment of the Atlantic dry bulk market exits a strong second quarter in a hopeful mood, expectant of persistently stronger time charter rates across the basin.

The only question on market participants' minds is: Which area will be the strongest? But as global dry commodity demand contracts under the threat of a second wave of coronavirus infection, should shipowners be more cautious in the second half of 2020?

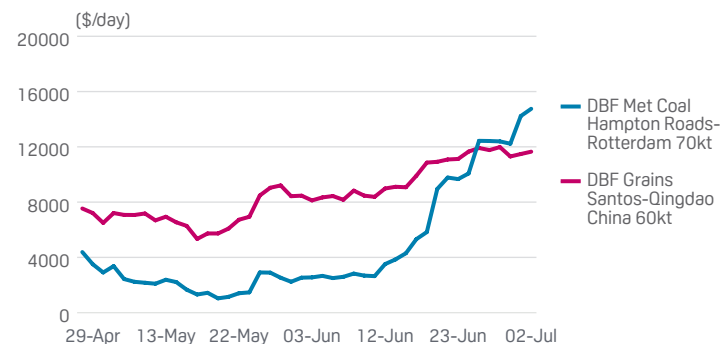
Right place at the right time

The second quarter of 2020 exposed the positional nature of the dry bulk markets, with rates in some areas of the Atlantic skyrocketing while others sunk. As localized demand for mid-sized dry bulk carriers dried up — like Baltic coal exports and US Gulf Coast grains — and the cost of International Maritime Organization-compliant marine fuels fell in the wake of the April oil collapse, voyage rates (\$/mt) plummeted across the basin.

However, one area of the Atlantic initially proved resilient — the east coast of South America. Despite the disastrous coronavirus-induced collapse in global dry commodity demand, the Panamax market was well-placed to serve Brazil's prodigious soybean exports to Asian buyers.

Daily time charter equivalent earnings on a Kamsarmax carrying soybeans from Brazil to China jumped 73% in the second half of May to \$9,207/d. The same vessel carrying coal from the US East Coast would have earned a little over \$2,500/d. With such dire earnings potential in the North

KAMSARMAX TIME CHARTER EQUIVALENTS, NORTH vs SOUTH ATLANTIC



Source: S&P Global Platts

Atlantic, many ships ballasted south in search of better prospects from Brazil.

Weeks later, at the end of June, the Hampton Roads-to-Rotterdam, 70,000-mt coal TCE had surged to \$12,227/d, up an astonishing 1,081% over May 20 to June 30.

So, the question for every shipowner in the third quarter must be: Where to find the next gold rush.

Location, location, location

Market sentiment in the South Atlantic is outwardly positive for Q3, but there is a risk that the area may simply be over-tonnaged. The east coast of South America saw continued steady demand for grain freight to the Far East throughout Q2.

However, time charter rates held relatively flat from early June onward. On an APS basis, time charter rates for Kamsarmaxes threatened the \$15,000/d plus \$500,000 ballast bonus level mid-month, with slightly lower rates for LMEs or ships with suboptimal consumption specifications, but they never quite exceeded that significant threshold.

Market preference appeared to be for fixtures with vessel delivery in the Pacific basin or Indian Ocean, in order to avoid the risk of further jumps in time charter rates. Sources were skeptical that rates would remain high across both basins, with some shipowners trying to tie in high daily rates for front-haul trips in order to benefit from what they considered a temporary spike.

"I have the impression that the ECSA market is taking a breath, and that July and August will be flatter," said the head of research at one major shipbroker at the end of June.

"There have been a very low number of fixtures from Brazil this past week, although levels were steady-up if compared with mid-June, but I think we have seen the vast majority of ECSA grain flows in April-May-June already."

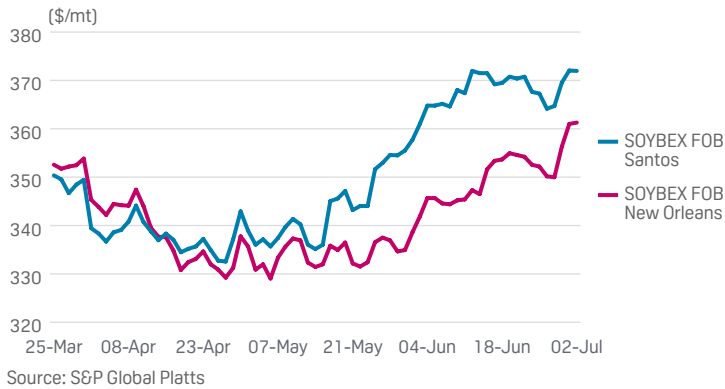
When one door closes, another opens

Instead, all eyes are now on two grains export sites — the US Gulf Coast and the Black Sea.

US-sourced soybean FOB prices have fallen well below Santos and Paranagua FOB prices since late April, with the SOYBEX FOB Santos/SOYBEX FOB New Orleans spread growing as wide as \$25.01/mt on June 15.

With narrower freight differentials between ECSA and the US Gulf Coast, the US-sourced soybeans have become a much more attractive prospect for eastern buyers, despite ongoing — and potentially escalating — trade tensions between the US and China.

Calmer conditions and deeper drafts on the Mississippi River could aid the larger ships in loading at upriver ports,

SOYBEX FOB SANTOS vs SOYBEX FOB NEW ORLEANS

meaning they could undercut the more flexible Supramax/ Ultramax and Handysize segments.

However, Q3 in the North Atlantic can be complicated by the hurricane season. In May, the National Oceanic and Atmospheric Administration's (NOAA) forecast for 2020 predicted a 60% chance of an above-normal season with 13-19 named storms, 6-10 hurricanes, and between three and six major hurricanes.

Later in the quarter, the Black Sea grain season traditionally comes alive. As grains from the northern regions of Ukraine and Russia reach the ports, exports are likely to intensify as yields are expected to be higher than in the southern regions of these two countries.

Although Black Sea grain exports are usually dominated by the Supramax/Ultramax sector, low marine fuel prices and booming freight on the smaller vessel types could work in favor of the larger Kamsarmax and Panamax ships.

To track this, S&P Global Platts is planning to launch a new Panamax freight assessment of 60,000 mt (plus/minus 10%) of grains from Odessa, Ukraine, to Qingdao, China, on August 3.

— [Sam Eckett](#)

DRY BULK: SUPRAMAX & HANDYSIZE

LONG, PAINFUL ROAD AHEAD FOR ATLANTIC SUPRAMAXES

- Long road to recovery for Supramaxes and Handysizes
- Recovery prompted by Chinese demand, but uncertainty looming
- Fleet demolition will only support the market from 2021

The Atlantic Supramax and Handysize dry bulk markets will continue to suffer from the effects of the coronavirus pandemic, as demand for key commodities like petcoke, scrap and coal, continues to stall amid industrial slump and summer doldrums.

After an already weak first quarter, and a dip in earnings throughout Q2, the recovery will be slow and painful over the coming months, and owners will have to wait before being able to see significantly higher freight levels.

“Any recovery will be as slow as the restart of global economies,” an owner said. “They won’t rush it given the fear of resurgence of the pandemic,” the owner added.

While Chinese demand remains a crucial element in freight rates in the Atlantic basin, China needs strong export markets for its steel production, a condition which has yet to materialize.

Chinese demand for iron ore and other commodities has picked up amid domestic stimulus for fiscal and infrastructure projects. However, import demand for Chinese steel from European and US markets remains bearish, which could translate in demand stagnating before export markets clear out current stocks and start importing.

Bigger losers than others

Freight across the Atlantic basin dipped to unseen values throughout the second quarter, with the second half of April and May proving particularly trying for owners of Supramaxes and Handysizes. Scarce cargoes, coupled with structural overtonnage in the Atlantic, brought Supramaxes and Ultramaxs in direct competition with larger dry carriers with better economies of scale.

Keeping this in mind, the South Atlantic remained the region most preserved from the demand havoc given the relative support for grains, and the Chinese preference for South American amid geopolitical tension with the former’s Northern neighbour. In fact, the deepening of the US-China tension, further fuelled by the pandemic, did not bring relief for owners waiting outside the US Gulf.

The situation was more arduous, however, for commodities like coal and petcoke coming from the US Gulf. Fronthaul runs to China from the Gulf freight dipped by \$13.75/mt to \$24.75/mt between March 11 and April 11, representing a month-on-month dip of 36%.

“I think you can’t go much lower than this, the levels are already unsustainable,” an operator said. “The USG is an awful place to be at the moment.”

Painful road to recovery

While first signs of recovery were seen in the dawn of June, with owners rallying to take profit of the momentum, the dry bulk market will continue facing challenges in the

PETCOKE HOUSTON-QINGDAO 50kt

Source: S&P Global Platts

coming quarter. The World Trade Organization predicts a fall in global trade by between 13% and 32% in 2020, before rebounding by between 21% and 24% in 2021.

Sporadic jumps in the market are to be expected as owners reposition their fleet across the basin, trying to judge where cargo activity will pick up. This was the case in the US Gulf toward the end of the first decade of June 2020, when a spike in activity caused rates to shoot up and correct downwards thereafter.

“The world is not in its best moments. Coronavirus is threatening again in many places,” a trader said.

Recent fluctuations in predictions regarding upcoming harvests in the main grain-producing countries will also cause further havoc in the dry bulk market, like in the Black Sea, where a disappointing start of the summer grain season will likely add on to the downward pressure on freight rates.

Fleet demolition activity to accelerate

Overtonnage in the Atlantic basin will remain a problem throughout the coming months, and market participants will look at the resuming scrapping activity to provide support to the market. Scrapping activity halted in Q2 given coronavirus-related closures of ship breaker yards in India and Pakistan. Notwithstanding ship yards have reopened in recent weeks, operating capability averages 30% to 40%, and, with the Monsoon season approaching, logistical complications are expected.

However, demolition economics remain unfavorable. Given the low demand for recycling material in the Indian Subcontinent, low sale costs for old bulk carriers have caused owners to hold on to their units. Optima Shipping Services estimate that around 16 million deadweight tons will be scrapped in 2020, and this will increase to 22 million tons in 2021.

Scrapping interest is likely to differ across ship sizes. At present, 1.3% Ultramaxers and 18% Supramaxers are more than 15 years old. Comparatively, the share of Panamaxers and Handymaxers older than 15 years old is 52.4% and 57%, respectively. The average age of the Panamax fleet might

end up profiting to Ultramaxers, which can compete for Panamax cargoes given their tonnage capabilities.

— [Charlotte Bucchioni](#)

CONTAINERS

CONTAINER MARKET EYES RECOVERY IN SECOND HALF OF 2020

- Trans-Pacific cargo numbers rising, boosting shipping rates
- Concerns over a second wave of infections remain rife in market

The situation for carriers in the global container freight market looks much rosier for the third quarter than it did heading into the second.

With demand returning to the market and freight rates continuing to rise, especially on trans-Pacific container routes, carriers are holding out hope that they can ride this wave of demand until Golden Week in October.

With gradually fewer and fewer void sailings coming up in the market and an increasing demand bump on almost all major trade lanes as lockdown restrictions continue to ease, there is some optimism coming from the carrier side at this stage.

The same cannot be said for shippers, however, already braced for a global recession widely expected to make the 2008 financial crisis pale into insignificance. With senior policymakers and advisers around the world bracing for crashing currencies, and shippers caught between high freight rates, expected loss of consumer confidence, and a potential second wave of coronavirus-related infections and lockdowns, the picture from their side to the end of the year is less rosy.

Lessons from the pandemic

At the start of the second quarter, the freight market was braced for port closures, a complete lack of cargo, and major financial worries. But this didn't really come to pass, at least to the level initially feared.

Cargo inquiries dropped significantly, as seen around the world with lockdown measures coming into force and shops shuttering to weather the storm. But as lockdown measures have been eased around much of the world, trading has picked up, resulting in much higher volumes of containers being shipped in recent weeks. This has prompted some carriers to increase their rates and also un-blank some sailings that had previously been canceled.

These first steps towards recovery are tentative, however, with much uncertainty as to how long shops will remain open in the event of a second spike in infections and the subsequent reimposition of restrictions. Despite this, supply chains have been reopened and volumes are starting to increase on key head hauls.

“The picture is slightly better than it was, and the second half of the year is actually looking quite [a bit] rosier for carriers — maybe we will see a peak season surcharge after all, just a few months later than we expected,” a UK-based freight forwarder said.

Impacts of a second wave

One of the major concerns across all participants in the container shipping world is the potential fallout that a second spike in infections and lockdowns across North Asia could bring.

Cargo volumes dipped significantly over the second quarter of the year, and there are fears that further lockdowns could do the same in the second half of 2020.

Over the course of the most impacted months before lockdown restrictions started to ease, March-May, cumulative imports into Los Angeles and Long Beach ports in California fell by 12.6% compared to the same period in 2019 to 1,697,388 TEUs. The levels in 2019 were still down significantly compared to the previous year also owing to the ongoing US-China trade tensions, and it has been a while since trans-Pacific carriers have managed to break the surface and catch their breath.

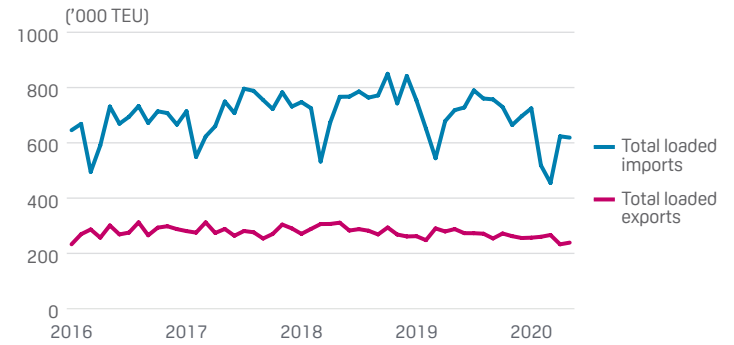
However, June showed a significant turnaround on this front, with rates on trans-Pacific lanes rising significantly recently following a demand spike. This increase in demand has led to three consecutive GRIs for the start of June, mid-month and the start of July. With many void sailings still in place across the Pacific trade lanes however, there is a shortage of vessels in the region, further exacerbating the issues that have come with an increase in demand.

Platts Container Rate 13 - North Asia to West Coast North America rose 80% from April 1 to July 1, from \$1,500/FEU on the back of this increase in demand and it has taken significant carrier discipline to keep rates high at this level.

“This recent demand spike has given us confidence that maybe there are still cargoes out there that people want and so maybe we will see a stronger Q3 than previously thought,” said a US carrier source. “The easing of lockdowns has come at an opportune moment for us as we have fewer void sailings coming up and demand has started to rise so maybe the world isn’t as bad as we thought.”

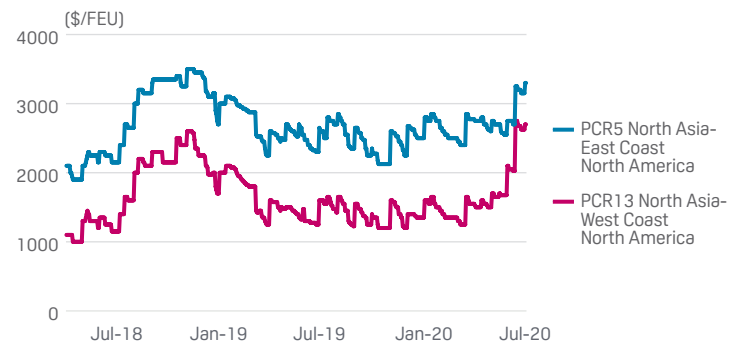
Despite this positive sentiment on trans-Pacific lanes, the trans-Atlantic routes are seeing some significant pressure, with cargo volumes down significantly since the start of the year.

CUMULATIVE LOS ANGELES AND LONG BEACH PORT VOLUMES



Source: Port of Los Angeles, Port of Long Beach

TRANS-PACIFIC CONTAINER RATES



Source: S&P Global Platts

“It’s tough out there, there’s no denying it. We had a fairly calm start to the year, things were moving relatively smoothly, but now there is just no demand and no recovery in sight — the situation is actually quite dire,” said a trans-Atlantic carrier.

Platts Container Rate 9 — North Continent to East Coast North America — lost \$50 from April 1 to \$1,800/FEU on July 1.

Outlook remains optimistic

In general, carriers are holding firm in their optimism that the second half of the year will be an improvement on the first half of the year, expecting that the market cannot get any worse than it did at the start of April.

Despite this, as the world appears to be careering headlong into a global recession which threatens to dwarf the 2008 financial crisis, there are certainly some troubling times ahead.

As lockdown eases, furlough payouts begin to wane and unemployment starts to rise, as many economists are predicting, it could be a while until consumer confidence reaches the pre-coronavirus levels. This likely means that the recovery that so many are looking for will drag on much longer than desired, on both the carrier and shipper fronts, but all appear agreed at this stage that the darkest hours are now behind them.

— [George Griffiths](#)

LNG

SPOT RATES SET TO INCREASE GRADUALLY DESPITE LOW LNG DEMAND

- LNG glut likely to keep a lid on any uptick
- US demand pivotal to revival

US cargoes for September loads will be a key barometer for the LNG spot shipping market over the coming quarter, with fewer cancellations and wider spreads expected.

However, questions remain as to how far spot LNG shipping prices can rise, given a low LNG pricing environment.

The third quarter typically sees LNG shipping prices make solid gains from the cyclical lows of the second quarter, heading into the winter when LNG demand is highest.

Atlantic and Pacific LNG shipping rates started July 2019 at around \$50,000/day and reached around \$70,000/day by the end of September, increasing 40%.

However, LNG spot shipping is currently near three-year lows. Atlantic shipping rates averaged \$37,000/day over Q2 and Pacific \$31,000/day, close to levels last seen in 2017 when they were \$38,000/day and \$28,000/day respectively.

Both shipping rates were higher during the second quarter in 2018 and 2019, with the Atlantic LNG shipping rate at \$56,000/day and \$50,000/day respectively, while the Pacific LNG shipping rate averaged \$40,000/day and \$42,000/day.

The low shipping rates mirror the LNG cargo market, where the benchmark price JKM price is currently in the low \$2s/MMBtu level, a historic low.

“In my opinion we are going to end up somewhere between 2016 and 2017 for Q3-Q4,” said a chartering source.

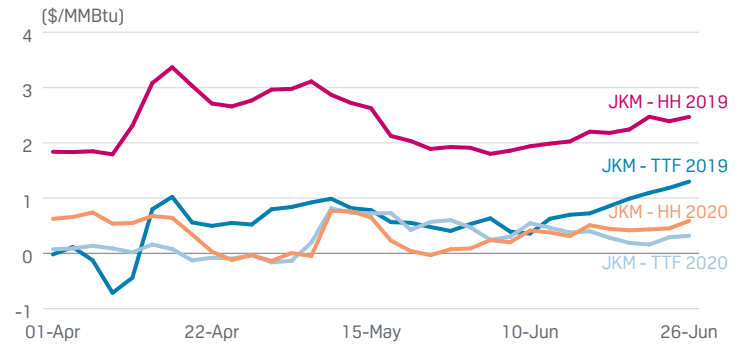
Low LNG prices, low spreads and US cargo cancellations

The reason for the low-price LNG environment is weak demand, with high stock levels across both the Atlantic and the Pacific.

This was also demonstrated by low spread levels over the second quarter, with JKM versus US Henry Hub spreads well below 2019 levels, highlighting the extent to which JKM has fallen.

Meanwhile US LNG cargoes, a source of demand for LNG shipowners, were also heard being canceled throughout the second quarter, which partly explains the bearishness in LNG spot shipping.

NATGAS/LNG SPREADS



Source: S&P Global Platts

In May, 12 cargoes were canceled while for June to August loads, between 35 and 45 cargoes were heard canceled each month. These cargoes were not lifted as they could not price profitably into Europe or North Asia.

September and the winter could still go either way

Nevertheless, the US cargo situation in September and LNG /natgas spreads act as a focal point for the LNG shipping market. “US cargoes need to be able to flow,” said a shipowner.

September US cargoes are currently in the money, according to multiple sources. The JKM October paper was assessed at \$3.05/MMBtu on July 1, against \$1.745/MMBtu for September Henry Hub and \$2.129/MMBtu for September TTF (European gas price). This put the JKM versus TTF spread at \$0.921/MMBtu and JKM versus Henry Hub at \$1.30/MMBtu, with freight cost for cross-basin spot voyages at sub-\$1.00/MMBtu levels.

“Most September cargoes will lift,” said a shipbroking source, with a charterer echoing the sentiment: “September cargoes can price into Europe and JKM.”

There is also the option to charter a vessel to float a cargo from September to November and December. For example, OMV was heard to be seeking a tanker for charter from September through most of November, with an option to extend into December. The intention for the charter was understood to be for floating a cargo, targeting the contango structure in European gas.

Meanwhile, interest for multi-month charters had also been heard. Naturgy and Total were both heard to have fixed vessels for winter coverage, while RWE and Centrica were also heard looking.

“The spot market is at the bottom now, and will improve going into the winter but won’t be as good as last year due to low spreads,” said a shipbroker.

— Wyatt Wong

BUNKER FUELS

BUNKER FUEL MARKET SEEKS PATH TO 'NEW NORMAL' AFTER WILD START TO 2020

- Unexpectedly narrow sulfur spread defining bunker market
- HSFO availability lacking amid US refining popularity
- VLSFO overstocked with demand still muted

The ripple effects of IMO 2020 and seismic shock of COVID-19 have turned bunker fuel markets upside down, with a narrow spread between high and low sulfur fuel potentially defining the months ahead.

Premium bunker fuels at low prices may provide solace for struggling shipowners and charterers — with marine fuel making up the lion's share of costs — but they inflict further pain on bunker suppliers. Meanwhile, a stronger dirty fuel oil market has put scrubber investments on the back-burner, with many shippers either postponing or canceling orders.

The narrowing in the gap between 0.5% marine fuel and 3.5%S fuel oil FOB Rotterdam barges has been dramatic. The spread plunged from \$321.50/mt at the start of January to just \$46.00/mt in late June.

And while the conditions that turned the market on its head appear to be easing, they are unlikely to go away any time soon, analysts and market participants suggest.

A glut of premium marine fuels has led to prices for 0.5%S material halving since the start of the year. Industry players stocked up to ensure they would meet the International Maritime Organization's sulfur cap rule that came into force January 1, but this was followed by a collapse in demand as sea travel across containers, cruises and dry bulk was decimated by the coronavirus pandemic.

Meanwhile HSFO has not become the cheap, unwanted product many expected, with 3.5%S FO FOB Rotterdam barges declining just 14% this year. That has left those shipowners who invested in gas exhaust cleaning systems, or scrubbers, feeling a little short-changed even if the payback economics are still favorable. Back in January, some were expecting to recoup their investment within a year or so, but it may now take 3-4 years.

Demand from US refiners to use HSFO as coking feedstock along with tight availability in many ports has supported prices. Indeed, sources suggest even in the Mediterranean HSFO has been lacking at times, with only the major hubs like Singapore, Fujairah and the Amsterdam-Rotterdam-Antwerp seeing more stock.

With lockdown measures easing and demand picking up, oil prices have tentatively recovered from their April lows and S&P Global Platts Analytics sees Dated Brent ranging between \$35/b and \$45/b in the near term as the market looks for further clarity.

This modest recovery has been reflected in the 0.5% marine fuel market, with the contango structure having flattened in recent weeks and sources noting barrels of the cleaner fuel oil being released into the market from storage.

Singapore's fuel oil market has also shown signs of improvement after being awash with premium shipping fuels. This has boosted arbitrage opportunities, as European bunker players now have an outlet to sell the marine fuel eastwards.

But stocks in the ARA hub will take some time to clear even if demand limps back to life. Combined fuel oil stocks in the ARA, as measured by Insights Global, averaged almost 1.5 million mt in April and jumped above 1.7 million mt in May, before returning to closer to April levels in June.

Quality question

Looking ahead, there will be slow growth for bunker demand, increasing fuel efficiency, slow steaming to reduce consumption and less stress on delivery infrastructure, Robin Meech, managing director of Marine and Energy Consulting said during the S&P Global Platts European Bunker fuel Virtual Conference on June 16.

The landscape for bunker fuels is expected to change as the industry looks further ahead to more environmentally friendly alternatives. LNG is starting to carve out a significant niche while fuels such as hydrogen and ammonia are being experimented with.

Meanwhile, marine gasoil is now almost the forgotten fuel for ships, usurped by the popularity of VLSFO partly thanks to latter's higher and often more suitable viscosity.

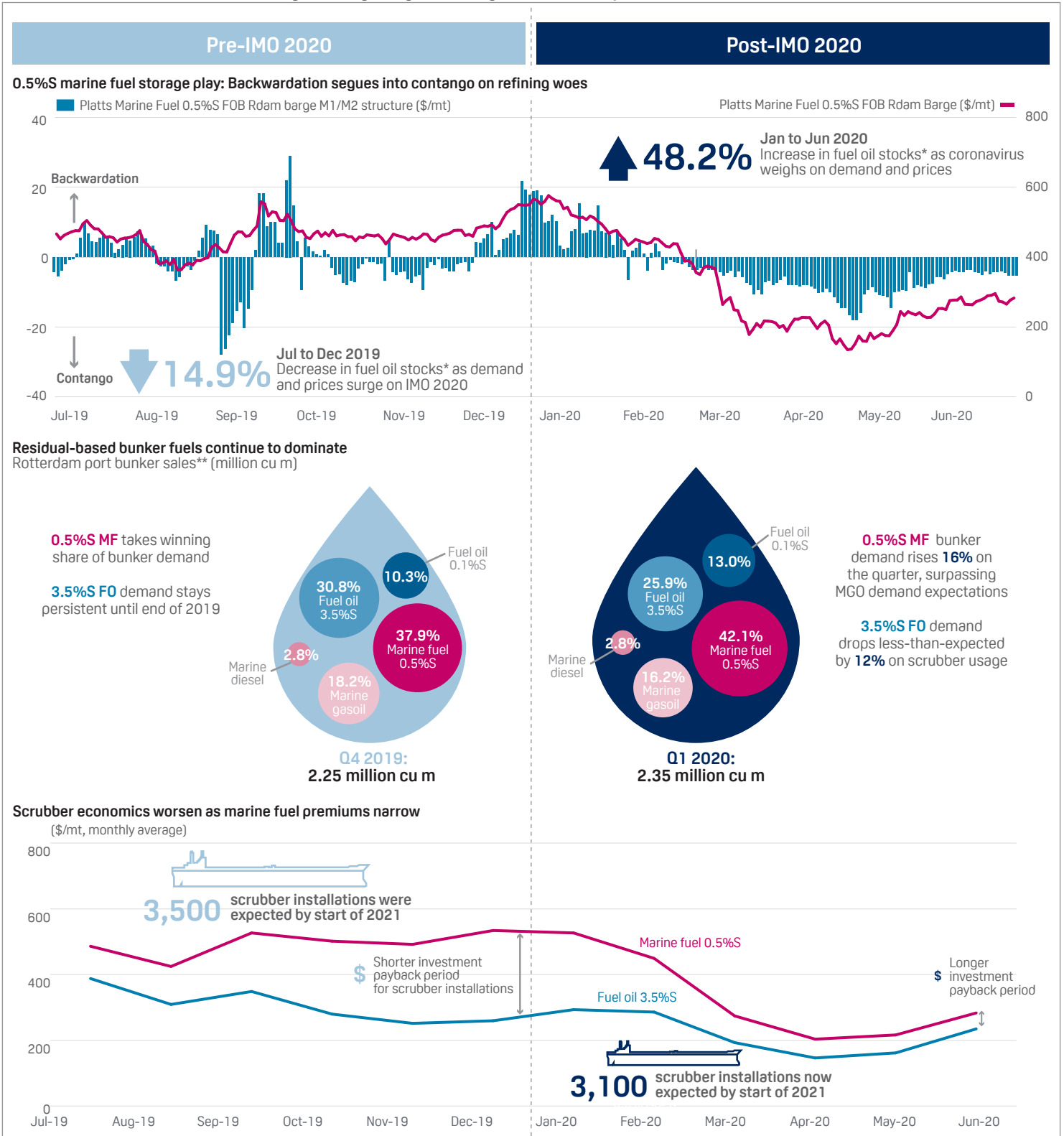
"It was a surprise that marine gasoil demand did not pick up more as a result of IMO 2020, but we see it caused by the fact that the bunkers market is very much a suppliers' market," said BIMCO's chief shipping analyst Peter Sand in an interview with S&P Global Platts. "It is a higher margin for refiners to deliver very low sulfur fuel oil as opposed to distillate-based fuels as marine bunker fuels is basically a waste/residual product," Sand added.

And while fuel quality concerns continue to linger with VLSFO, it appears that disaster scenarios have been avoided. "We highlight high sediment fuels, low flash point fuels, high abrasive fuels and high density fuels as quality issues we are following closely with low sulfur fuels," Sand added.

[\(continued on page 12\)](#)

SHIFTING CURRENTS – IMO 2020, PAST AND PRESENT

Dramatic events from the coronavirus pandemic uproot market expectations for the International Maritime Organisation’s 2020 sulfur cap on marine fuels. Slumping demand in the end-user bunkers market along with rising storage levels bring about a new reality for 3.5% sulfur fuel oil and 0.5% sulfur marine fuel.



*Amsterdam-Rotterdam-Antwerp combined fuel oil stocks. **Excluding lubricant volumes
Source: Insights Global, S&P Global Platts, S&P Global Platts Analytics, Rotterdam Port Authority

There have also been questions around blending with vacuum gasoil coming into the bunker pool which can increase the waxy nature of the fuel.

But ultimately, the speed of global recovery from the pandemic will determine how bunker prices develop in the months ahead. The supply overhang and the ability of OPEC and its allies to remain disciplined over their oil production cut agreement will also play a key role. This oil market rebalancing will be pivotal in any “normalization” in the spread between HSFO and VLSFO — with many industry

players seeing that between \$100-\$200/mt at some point on the horizon.

Some in the industry may not appreciate the irony of being wrong-footed by a shortage of fuels they were ready to discard and left with an abundance of what they were worried about sourcing. It may still be a rocky road ahead to the “new normal” after what has been an anything but normal year.

— [Paul Hickin, Britt Russell-Webster](#)

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