

WET CARGO

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Supply

Supply – What is coming?

- **9.2%** of the Global Fleet will be delivered by **2022**.
- Biggest portion anticipated during **2019 and 2020** with limited basis for **slippage**.
- The **VLCC** and **MR** sectors face the greatest orderbooks.
- This is widely attributed to IMO 2020.
- After a **record scrapping** rate during 2018, **demolitions** have slowed down.

ORDERBOOK AND DELIVERIES – ALL TANKERS

	Fleet		Orderbook			Delivered		2019	2020	2021	2022
	(Mn Dwt)	(No. of Ships)	(Mn Dwt)	(No. of Ships)	On Order as % of exist. fleet	2018	2019	Sched. Deliveries (No. of Vessels)			
Handysize	21.4	582	0.7	18	3.1%	8	9	9	8	1	0
Medium Range	78.0	1,633	8.0	162	9.9%	56	38	59	80	16	5
Panamax / LR1	32.8	451	2.1	31	6.9%	12	6	17	8	6	0
of which LR1:	28.0	382	1.6	23	6.0%	12	4	13	4	6	0
Aframax / LR2	112.8	1,038	9.5	84	8.1%	51	34	19	36	18	8
of which LR2:	41.4	382	3.5	31	8.1%	18	20	7	16	6	2
Suezmax	91.2	584	6.7	44	7.5%	32	23	8	30	6	0
VLCC	235.4	766	25.9	85	11.1%	39	34	33	44	8	0
Grand Total	571.5	5,054	52.9	424	9.2%	198	144	145	206	55	13

	New Contracts						Demolition / Removals					
	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	2017	2018	2019	2017	2018	2019
Handysize	0	0	0	0	0	0	4	3	0	7	12	2
Medium Range	5	19	2	18	3	10	52	69	52	15	26	8
Panamax / LR1	0	0	0	0	0	0	7	17	0	7	7	4
of which LR1:	0	0	0	0	0	0	1	14	0	5	3	3
Aframax / LR2	5	0	1	4	0	0	46	26	17	29	45	4
of which LR2:	2	0	0	4	0	0	22	9	10	6	7	1
Suezmax	2	4	1	1	2	5	27	14	13	11	23	6
VLCC	8	9	2	0	0	4	57	44	15	10	34	2
Grand Total	20	32	6	23	5	19	193	173	97	79	147	26

Supply – What is going?

- The ordering waves of 2008, 2014 and 2017 have left us with a **very young fleet**;
- Most major charterers do not charter ships:
 - **> 17 yrs for Crude Carriers**;
 - **> 20 yrs for Products**.
- However, these vessels still find homes as floating storage terminals, FPSOs, cabotage trades / coastal tankers etc.

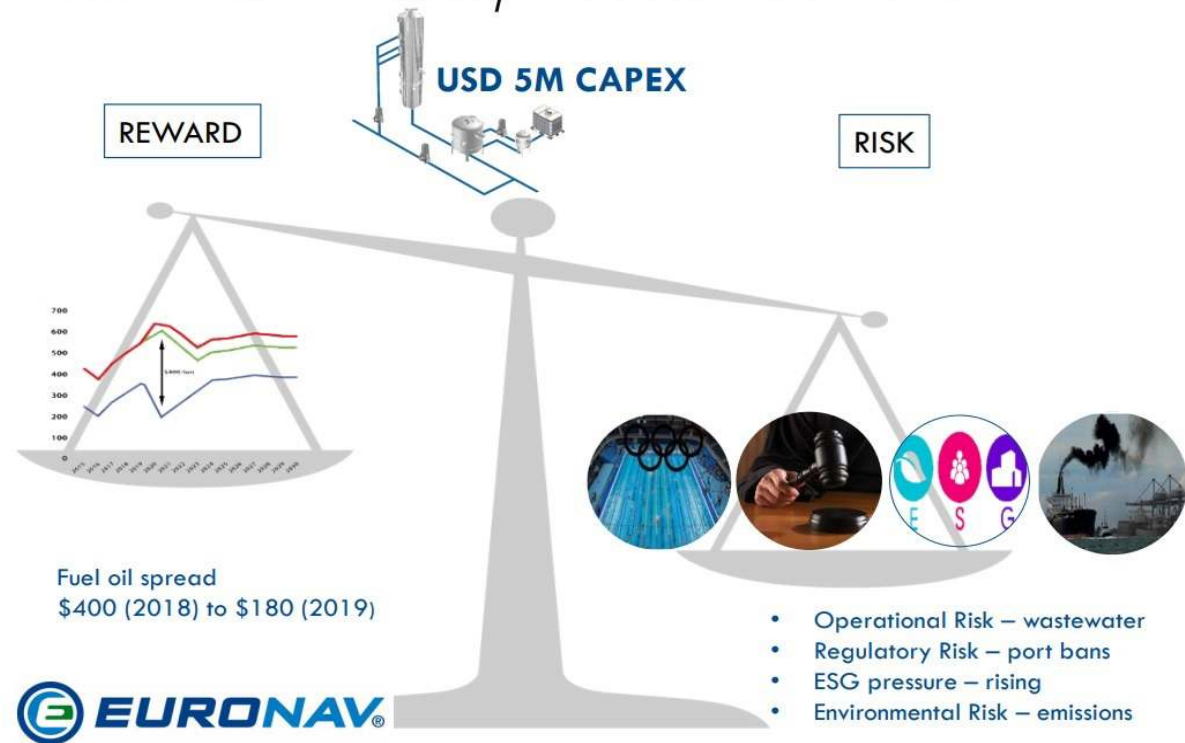
Fleet Age Profile

	4,239 vessels (inc. OB) or 83% of the Fleet are < 14yrs old.								17% is likely to be decommissioned in the near future..						Total Fleet		% of Total
	OB		Current Fleet						15-19		20-24		25+				
	No. Ships	Mn Dwt	No. Ships	Mn Dwt	No. Ships	Mn Dwt	No. Ships	Mn Dwt	No. Ships	Mn Dwt	No. Ships	Mn Dwt	No. Ships	Mn Dwt	No. Ships	Mn Dwt	No. Ships
Handysize	18	0.7	83	3.1	71	2.7	203	7.5	158	5.8	48	1.7	19	0.7	582	21.4	11.52%
as % of total fleet	3%	0%	14%		12%		35%		27%		8%		3%				
Medium Range	162	8.0	368	18.1	383	18.6	540	25.7	227	10.3	99	4.5	16	0.7	1,633	78.0	32.31%
as % of total fleet	10%	0%	23%		23%		33%		14%		6%		1%				
Panamax / LR1	31	2.1	60	4.4	90	6.6	212	15.4	78	5.6	7	0.5	4	0.3	451	32.8	8.92%
of which LR1:	23	1.6	53	4.0	88	6.5	177	13.0	57	4.1	4	0.3	3	0.2			
as % of total fleet	7%	0%	13%		20%		47%		17%		2%		1%				
Aframax / LR2	84	9.5	233	26.0	212	23.2	332	36.2	194	20.6	54	5.6	13	1.3	1,038	112.8	20.54%
of which LR2:	31	3.5	133	14.7	84	9.2	110	11.9	34	3.5	19	2.0	2	0.2			
as % of total fleet	8%	1%	22%		20%		32%		19%		5%		1%				
Suezmax	44	6.7	149	23.2	161	25.2	132	20.9	109	17.0	27	4.0	6	0.9	584	91.2	11.56%
as % of total fleet	8%	1%	26%		28%		23%		19%		5%		1%				
VLCC	85	25.9	190	58.5	227	70.2	169	52.0	151	45.9	29	8.7	0	0.0	766	235.4	15.16%
as % of total fleet	11%	3%	25%		30%		22%		20%		4%		0%				
Grand Total	424	53	1,083	133	1,144	147	1,588	158	917	105	264	25	58	4	5,054	571.5	
% of Total Fleet	8.4%	9.2%	21.4%	23.3%	22.6%	25.7%	31.4%	27.6%	18.1%	18.4%	5.2%	4.4%	1.1%	0.7%			

Scrubbers – To Fit or not to Fit that was the question.

- IMO 2020 requires a substantial cut of **SOx** emissions from Marine Fuels **to 0.50% m/m (mass by mass) from 3.50% m/m.**
- For ships operating outside designated emission control areas the current limit for sulphur content of ships' fuel oil is 3.50% m/m.
- The new limit will be 0.50% m/m which will apply on and after 1 January 2020.
- There is an even stricter limit of 0.10% m/m already in effect in emission control areas (ECAS) which have been established by IMO i.e. the Baltic Sea area; the North Sea area; the North American area (covering designated coastal areas off the United States and Canada); and the United States Caribbean Sea area (around Puerto Rico and the United States Virgin Islands).

SCRUBBERS – RISK/REWARD BALANCE



1) Switch to low-sulfur fuel:

Bunker fuel use in the shipping industry was **3.5 million barrels per day in 2018**, representing roughly **5% of global fuel demand**. Annual bunker fuel costs are predicted **to rise by US\$60 billion in 2020, a nearly 25% increase from 2019**.

2) Slower Travel, Less Capacity – Maybe for Containers.

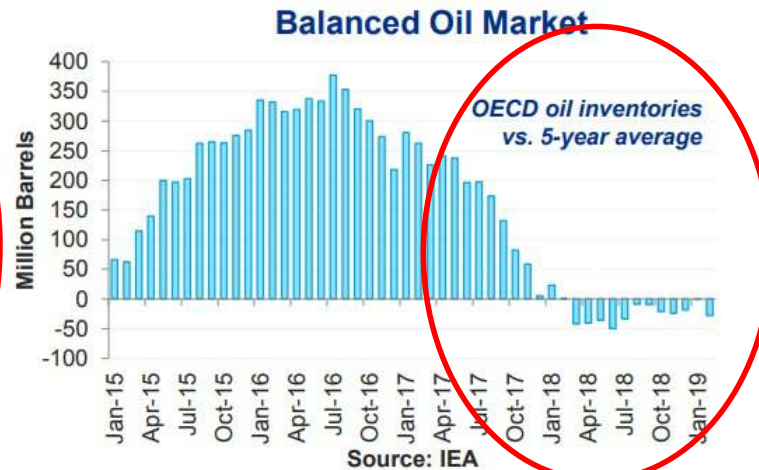
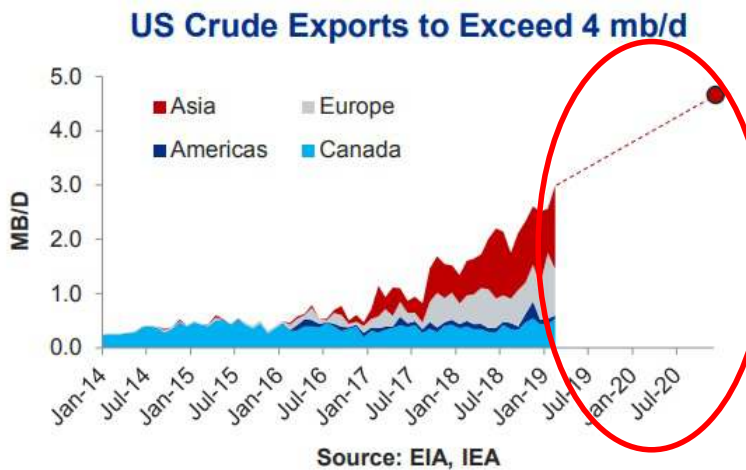
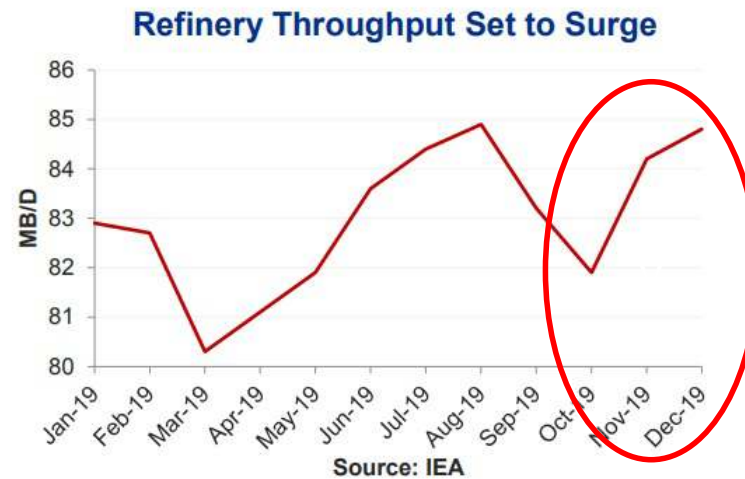
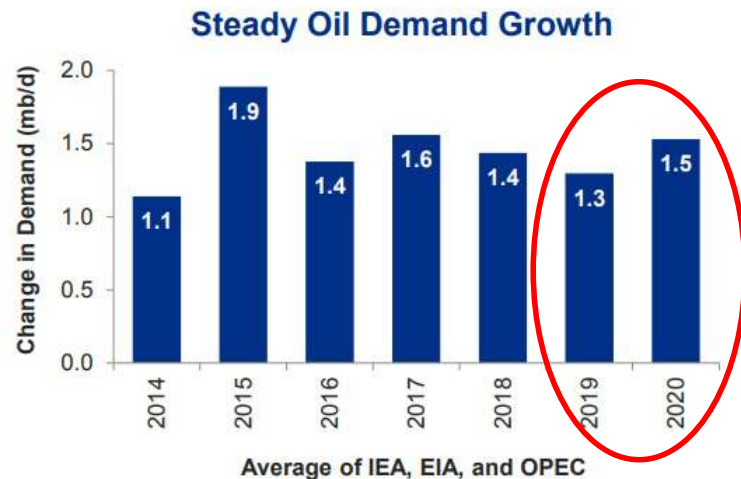
3) Refueling Detours - Fuel shortages would cause inefficiencies and increase freight rates even more, as **ships would be forced to detour to refuel more often**.

4) Installing Scrubbers – Roughly **1%** of the global fleet has been retrofitted with scrubbers. Forecasts for scrubber installations by mid-2020 run close to **5%** of the current ships on the water.

Source: Goldman Sachs

Demand

Oil Market Fundamentals

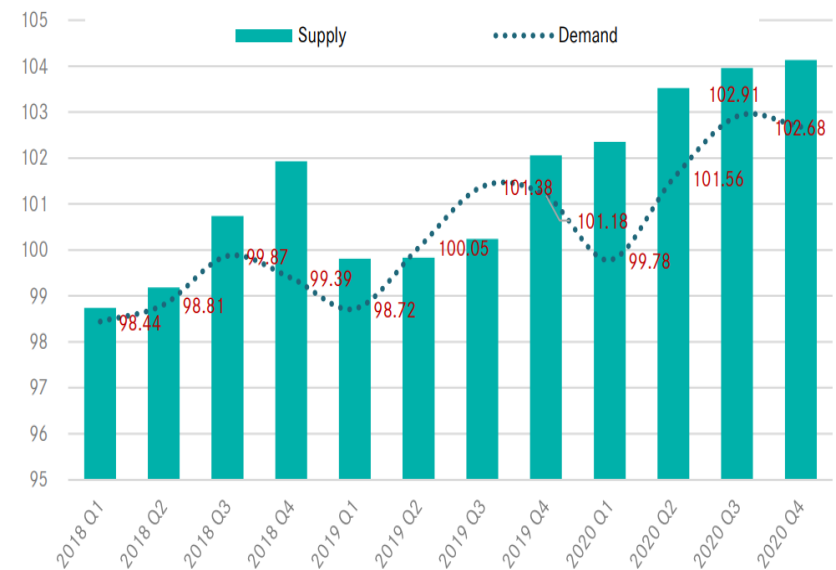


IEA OMR & Other Sources

(<https://www.iea.org/oilmarketreport/reports/2019/0619/>)

- **Opec+ has agreed to extend their production cuts.** Saudi Arabia and Russia had already agreed between them to maintain their cuts.
- **The extension will be for nine months,** rather than the anticipated six.
- IEA estimate for global **oil demand growth** in 2019 has been cut for a second consecutive month; now projected at **1.2 mb/d** and **1.4mb/d in 2020.**
- **In 2019-20, the global refining industry will add 3.5 mb/d of new capacity.**
- The IMO switch will result in major changes to **bunker fuel demand, sharply increasing gasoil demand from 4Q19.**
- Benchmark crude futures **prices have fallen by 20% since late April partly due to concerns about the health of oil demand.**

Global Oil Market Balance (Mn bpd)



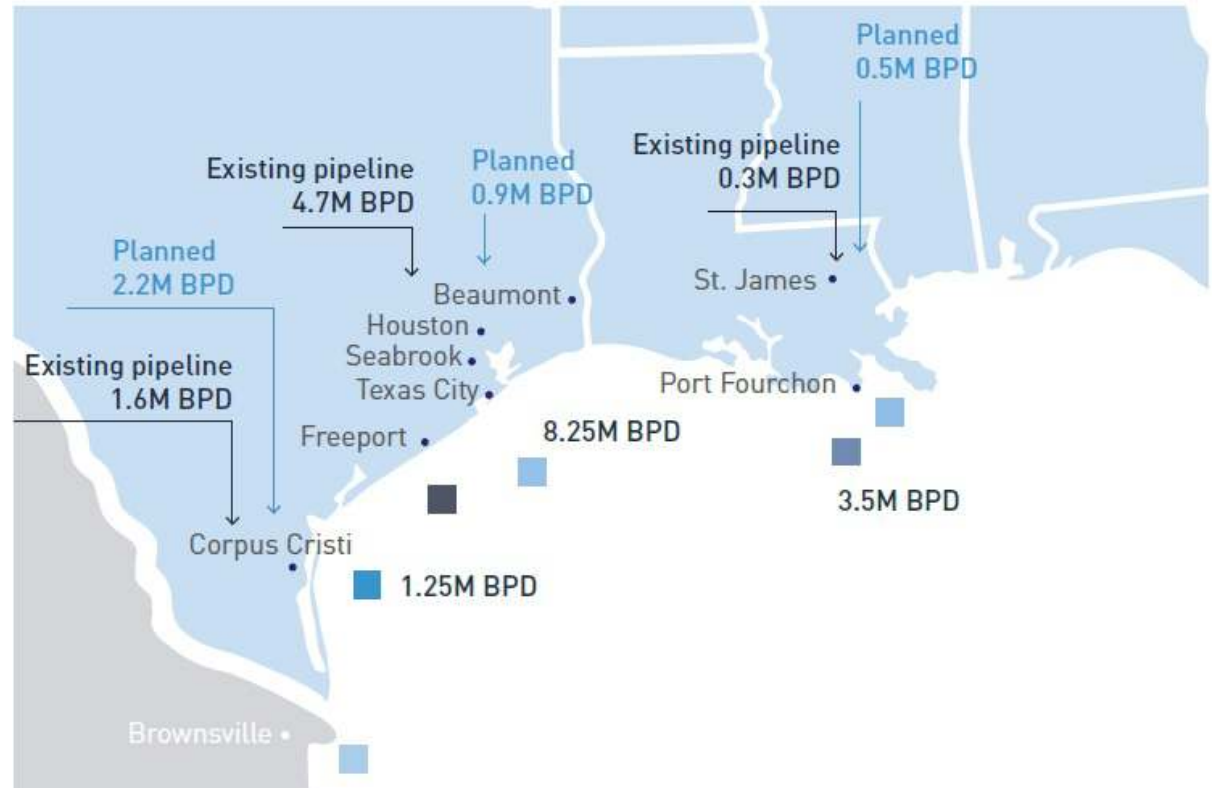
Affinity Research LLP

- **PES refinery fire** cut ECUS supply of 350,000bbl of capacity.
- **Macro risks** creating uncertainty:
 - Higher Oil price could cause demand destruction;
 - Impact of trade tensions and tariffs are unknown;
 - Global GDP growth may slow Demand.
- **IMO 2020 implementation doesn't go as expected:**
 - Short-term exemptions granted;
 - HSFO / LSFO spread could diminish scrubber economics.

The role of the US as an Exporter

- Theoretically US shale is producing (ever) **lighter crude with low sulphur content meaning it will be easier to breakdown for a refinery** and its low sulphur content makes it ideal as core constituent of the new compliant fuel which will require circa 3-4 million bbl per day to be produced to satisfy shipping demand.
- This underlying boost to US shale **could be sustained over several years** as disruption from IMO 2020 is expected to last until 2024/25.
- US **crude production continues to decline**, averaging just 12.1 Mn bpd during the week ending 21 June, which makes the fourth consecutive weekly decrease, and the lowest level of US production since mid-March.

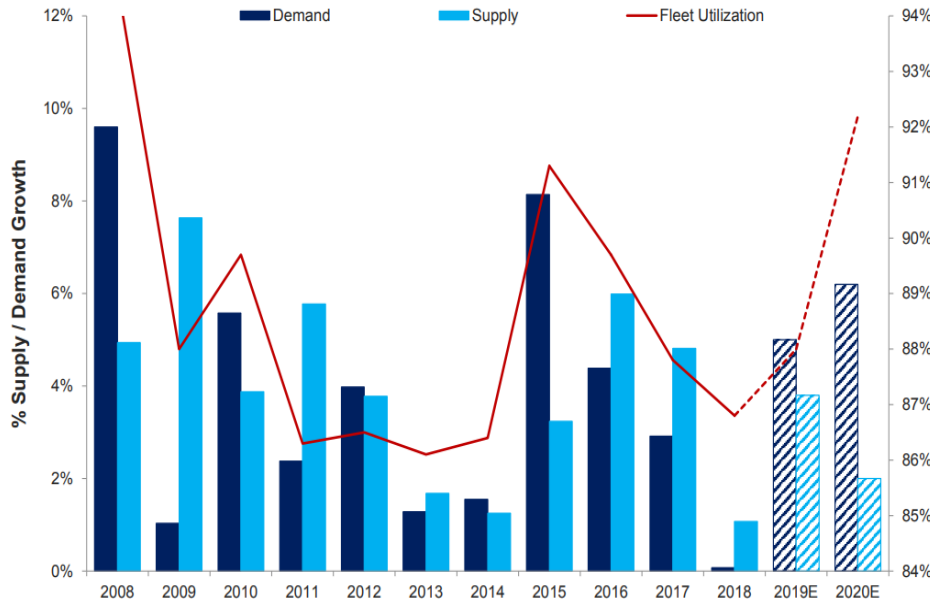
EXPORT POTENTIAL FROM THE US GULF COAST



Source: Euronav

Equilibrium (?)

Tanker Fleet Utilization Forecast



Source: TK & Clarksons

WHAT IMO 2020 COULD MEAN FOR TANKERS



% Fleet Utilization

- #1 INCREASED FUEL COSTS = NEW TRADING ROUTES ✓
- #2 INCREASED FUEL COSTS = STORAGE OPPORTUNITIES ✓
- #3 INCREASED FUEL COSTS = MORE OIL PRODUCED = MORE SHIPPING ✓
- #4 INCREASED FUEL COST = MORE RECYCLING ✓
- #5 INCREASED FUEL COSTS = SLOW STEAMING ✓

Source: Euronav

Supply

- Increase in Supply of ships by **9.2%**;
- Modest number of candidates available for scrapping **c. 17% over the next 5yrs**;
- Less modern vessels will be less economical due to the higher (?) cost of bunkers;
- The decision to retrofit scrubbers / BWTS or not, depending on the economics / age of the vessel;
- The impact of scrubbers especially on the larger ships will affect short – term supply. It is estimated that the Drydocking time required for a VLCC is close to 40 – 50 days;

Demand

- Oil Demand and Supply will be chasing each other around the **1.0bpb mark**;
- IMO 2020 implementation will **increase the need for trade**;
- The US primarily and other exporters will (ceteris paribus) increase Sweet Crude exports thus **increasing tonne-mile demand**;
- Refining industry will grow **by 3.5%**;
- Closure of the Strait of Hormuz?
- Macro Risks on Demand?