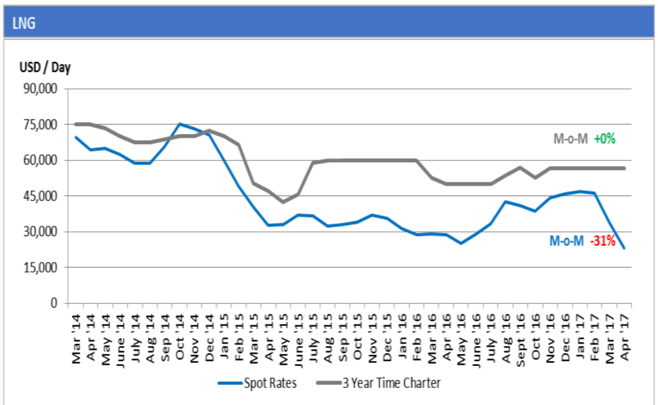
MISC Monthly

May 2017

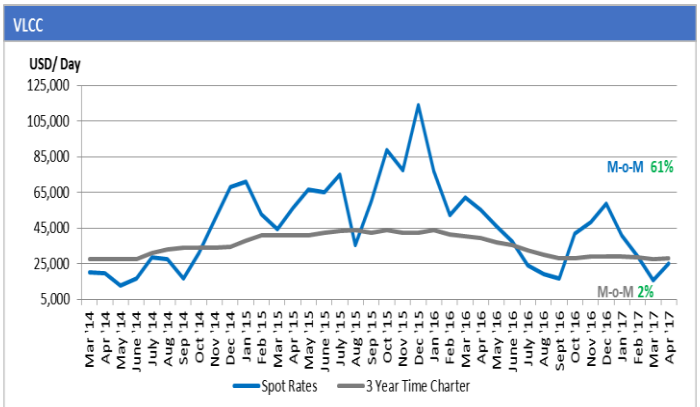
moving energy to build a better world

MISC Financial Calendar	
2Q FY2017 Quarterly Results	Wednesday, 9 August 2017
3Q FY2017 Quarterly Results	Friday, 3 November 2017
MISC Announcements	
-	

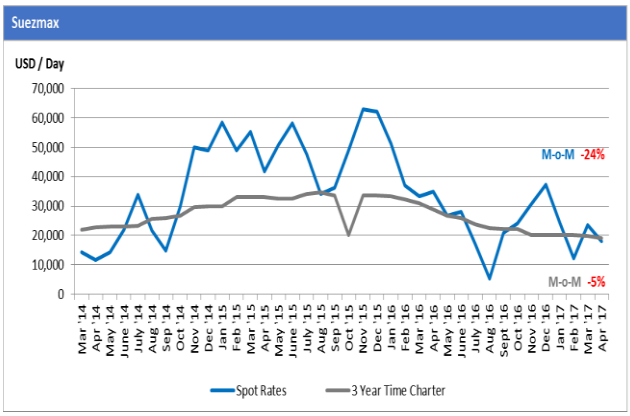
FREIGHT MARKET



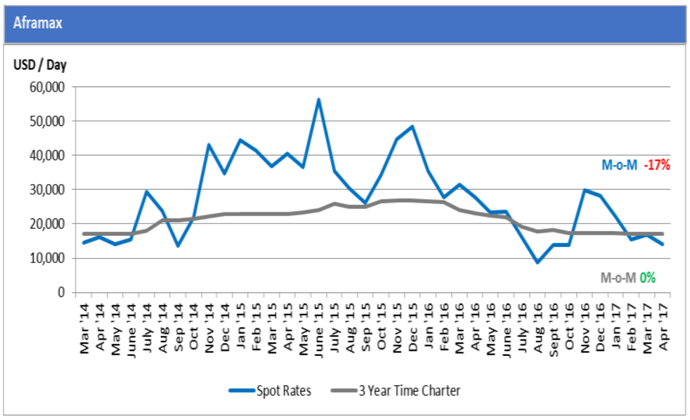
- Winter heating demand came down sharply in April, exacerbating the decline in the spot rates.
- Spot rates continue to come under pressure as vessel supply remained ample.



- VLCC spot rates strengthened this month on the back of relatively higher volumes of cargo moved from Middle East, coinciding with the end of the Asian refinery maintenance season.
- Tighter vessels availability in the Middle East and West Africa had also pushed rates up.



- Spot rates weakened during the month with lack of demand in the West African region.
- Larger share of the spot market in the West African region was captured by VLCCs leaving fewer cargoes for smaller class of vessels.
- Vessel supply in the market continue to increase with 3 additional vessels delivered during the month.



- Spot rates trended lower during the month due to higher tonnage availability in the key routes of the Baltic and North Sea.
- Despite high activities in the Black Sea and Mediterranean regions, supply outstrips demand as tonnage remains high.
- There were 4 additional newbuilds delivered during the month of April.

FREIGHT MARKET

USD/Day	Mar 2017 Avg	Apr 2017 Avg	1-Month +/-%	YTD 2017	2016 Avg	2015 Avg
LNG						
Spot Rates	33,750	23,250	-31%	37,531	34,796	38,430
1 Year Time Charter	37,500	32,750	-13%	36,625	32,639	36,119
3 Year Time Charter	56,500	56,500	-	56,563	54,079	56,750
PETROLEUM						
VLCC						
Spot Rates	15,559	25,100	61%	27,653	44,900	67,279
1 Year Time Charter	28,200	27,938	-1%	29,050	38,352	45,805
3 Year Time Charter	27,700	28,313	2%	28,378	34,496	41,869
Suezmax						
Spot Rates	23,529	17,979	-24%	19,524	28,897	50,411
1 Year Time Charter	20,100	18,500	-8%	20,525	27,381	35,024
3 Year Time Charter	19,950	19,000	-5%	19,863	25,780	33,063
Aframax						
Spot Rates	16,888	14,019	-17%	17,166	23,368	39,614
1 Year Time Charter	17,000	16,000	-6%	16,875	22,334	26,577
3 Year Time Charter	17,000	17,000	-	17,094	20,957	24,619
MR2						
1 Year Time Charter	12,550	13,469	7%	12,849	15,078	17,754
CHEMICAL						
Spot Rates (USD/Tonne)						
Rotterdam - Far East	108	108	-	107	107	105
Rotterdam-Taiwan	79	78	-1%	79	81	85
Gulf-Far East	35	37	5%	35	39	46
Singapore-Rotterdam	76	77	2%	75	76	91
Time Charter (USD/Day)						
1 Year Time Charter 19,000 dwt	13,500	13,500	-	13,500	15,513	15,233
1 Year Time Charter 37,000 dwt	11,000	11,063	1%	11,282	13,995	15,877

ASSET VALUE

USD 'Million	Mar 2017 Avg		Apr 2017 Avg		1-Month +/-%		YTD 2017		2016 Avg		2015 Avg	
LNG												
Newbuild (DFDE, Atlantic Max)	187		187		-		188		196		200	
PETROLEUM												
VLCC												
Newbuild	79		78		-2%		81		89		96	
5-Year	60		60		-		60		69		81	
Suezmax												
Newbuild	54		53		-1%		54		58		64	
5-Year	40		40		-		40		51		60	
Aframax												
Newbuild	43		43		-		44		48		53	
5-Year	29		29		-		29		35		46	
CHEMICAL												
IMO II 37,000 dwt	S/S	Coated	S/S	Coated	S/S	Coated	S/S	Coated	S/S	Coated	S/S	Coated
Newbuild Prices	48	29	48	29	-	-	48	29	49	30	59	31
Secondhand Prices - 10 years	34	15	34	15	-	-	34	16	36	17	37	16

FLEET DEVELOPMENT

No. of Vessels	Current Fleet	2017	2018	2019+	2020+	Total Orderbook	Orderbook as % of Fleet
LNG							
LNG Carriers	451	44	41	22	2	109	24%
PETROLEUM							
VLCC	665	29	41	7	0	77	12%
Suezmax	491	44	17	0	0	61	12%
Aframax	672	31	39	10	4	84	13%

INDUSTRY HEADLINES

SHIPPING: Scrubbers is cheapest way to comply with IMO cap

Exhaust cleaning scrubbers will be the cheapest way for larger ships to comply with the 2020 International Maritime Organisation's (IMO) 0.5pc sulphur cap on marine fuels, according to BP. Heavy fuel oil (HFO) is set to fall sharply in price when the cap comes into force in 2020, while the price of low-sulphur fuels will dramatically rise, BP Marine fuels supply and trading manager Justin Longhurst said. And the use of exhaust gas cleaning technology, known as scrubbers, will become the most cost-effective way for larger ships to comply with the sulphur limit, assuming the price differential between high-sulphur fuels — which are not compliant unless a scrubber is installed — and marine gasoil (MGO) is as large as some, including BP, have forecast. He added that just 6pc of the global fleet account for 30pc of bunker fuel demand. BP has already installed scrubbing technology on two 80,000t LR2 tankers, an experience that Longhurst describes as good "so far". This comes despite the technical challenges involved in the scrubbers' installation. BP said it was a difficult transition to set-up the scrubbers effectively, but they have had success at reducing 3.5pc sulphur fuel gases down to 0.5pc sulphur content, without any caustic soda being required in the process. As a result BP is now looking at retrofitting scrubbers on a larger number of tankers in the company's fleet. Longhurst also said that sophisticated refineries — which have the ability to turn high-sulphur crude grades into low-sulphur compliant products — would also be significant beneficiaries of the 2020 cap. He said coker utilisation is likely to rise as margins for high-sulphur crude slates increase towards 2020. Refiners would no longer place valuable low-sulphur crude feedstocks into cokers, replacing this with cheaper high-sulphur alternatives. He said refinery runs would increase, where possible, with refiners using up any spare capacity in order to maximise production of low-sulphur product, as the price of IMO compliant fuels increases. Longhurst also said that the 2020 sulphur cap would increase demand for low-sulphur crudes and that the refinery yield is likely to shift away from gasoline to compliant middle distillates as margins increase for them. He said the potential for widespread non-compliance with the sulphur cap was limited, because most of the marine fuel is consumed by the largest shipowners, which are likely to comply with the IMO ruling. But he said greater certainty was required to ensure HFO was not delivered to ships which do not have scrubbers installed.

Source: Argus

SHIPPING: Ship orders drop 12% in first quarter

New ship contracts fell 12% in the first quarter from an already low base. Data from Clarksons shows a total of 144 vessels were ordered to 31 March: 39 in January, 47 in February and 58 in March. This compares to 89, 17 and 58 respectively in 2016, for a total of 164. The pace of the decline in the shipping slump is slowing however. Orders dropped 71% to 600 ships in the whole of 2016. Clarksons said Chinese yards bagged the most contracts at 1.07 cgt, with Korean second on 890,000 cgt. Italy came third with 610,000 cgt and Finland fourth with 330,000 cgt, thanks to the cruiseship boom. Bulkers were starting to be ordered again, and tanker deals were gaining momentum. But offshore deals remained rare.

Source: Tradewinds

SHIPPING: Shipping pools; don't just dive in

Moore Stephens has advised on a number of pool agreements during the past 12 months, and it is clear that interest in the concept generally is increasing as a means to leverage money and maximise economies of scale. But while it might make good commercial sense for like-minded shipping interests to pool their resources to mutual advantage, traps may lie in wait for the unwary. Shipping pools can take a variety of forms, from incorporated entities or partnerships to joint-ventures and other forms of agreement. The jurisdiction in which the pool is established is of primary importance, since it will have fundamental tax and reporting implications. Historically, tax-friendly offshore jurisdictions have been a natural fit for many shipping pools, but the recent increased focus on general tax transparency and on proper governance and reporting procedures may serve as a catalyst for change in this regard. The existing structure of shipping pools established in offshore jurisdictions is unlikely to change, but it would be reasonable to expect the members of any new pool arrangements to at least consider the option of establishing the pool in a more traditional jurisdiction. A move towards greater corporatisation of shipping pools, which may grant access to trade finance solutions, might be a viable option for many owners, provided the terms of entry and exit are acceptable. There are a range of tax issues to consider when setting up, amending or joining a shipping pool. In the case of a new pool, it will be necessary to consider the tax position of each entity within the pool structure. Other important considerations include the terms of the pool agreement itself, the status of the pool under competition law, the effectiveness of the marketing strategy, and the way pool accounts are prepared and submitted.

Source: Moore Stephens

INDUSTRY HEADLINES

PETROLEUM: IMO's low-sulphur cap will boost tanker demand after 2020

The disruption in fuel supply created by the International Maritime Organization's low-sulphur regulations post-2020 would boost tanker demand as vessels would be needed to transport compliant fuels to different locations, Howe Robinson & Partners' head of tanker research Stavroula Betsakou said at the Sea Asia conference held during Singapore Maritime Week. This sets the tanker market apart from other segments, as the incremental demand for tankers engaged in the marine diesel and fuel oil trades will help these owners offset the costs of higher fuels. It also underscores the role of shipping, and more specifically tankers, in responding to cargo supply disruptions due to external factors. "Tankers will definitely benefit on the trade side," Ms Betsakou said. "When it comes to dry bulk, there is no direct increase in demand, which means it is just a straightforward increase in costs, and the sector will struggle to pass on the costs to the client." The IMO is implementing a 0.5% sulphur cap for marine fuels from 2020 that will push the global fleet towards using low-sulphur fuel, although it is still unclear what that fuel would be. Ships currently burn fuel oil, the dirtiest oil left over after clean fuels like petrol and diesel have been extracted from a barrel of crude oil. Some options on the table include a blend of fuel oil and clean diesel with a much bigger proportion of diesel; low-quality diesel that can just about meet the sulphur specifications; or emission-filtering equipment, such as scrubbers, that will allow ships to burn dirty fuel oil available at a discounted price. "We think that tankers will benefit from a trade growth perspective because whatever happens, we are going to have to move the compliant fuel from where it is produced or blended to the place of consumption in the bunkering hubs," Ms Betsakou said. She said the IMO rules would probably cause "a couple of years of shock to the system for tanker trading, where either gasoil or fuel oil will be moved in larger-than-normal quantities until we streamline what we use and where it gets produced". In addition, the fuel supply disruption will increase the use of tankers for floating storage of surplus fuel oil, which will be stored by bunker suppliers in aframaxes or suezmaxes until they can be blended, because access to blending facilities is limited. Tanker demand has typically surged in the past when fuel supply has been disrupted due to various logistical or geopolitical reasons, such as pipeline outages, typhoons, port congestion, strikes and social conflict. Ms Betsakou said by the time the 2020 sulphur cap kicked in, tankers would benefit from stronger demand in oil and product markets, helped by a relatively modest fleet growth. There was also scope for charterers to pick up some of the additional bill for bunkers, and higher fuel costs would be shared with owners, though other markets such as dry bulk may not benefit from this.

Source: Lloyd's List

PETROLEUM: Crude tanker deliveries hit two-year quarterly high

Global VLCC, Suezmax, and Aframax fleets each grew more in the period from January through March than in any quarter, according to ship delivery data stretching back to the fourth quarter of 2014 from Maritime Strategies International (MSI), a shipping consultancy. Elevated crude vessel deliveries continue to limit rate increases in the dirty tanker market. In the first quarter, the VLCC segment expanded by 6.5mn t, representing a 3pc increase in total supply, compared with 14.10mn t in all of 2016. Suezmax tonnage supply rose 2.83mn t, a 3.5pc gain, and the Aframax fleet expanded by 2.23mn t, a 1.7pc gain. Vessel removals were low in those segments, with only one VLCC, one Suezmax, and two Aframaxes exiting the global fleet. The increase in tonnage on the water has, along with Opec's production cuts, helped to pull down freight rates – and shipowner earnings. In the first quarter, the cost of VLCC freight along the key long-haul Caribbean-Singapore route averaged about $4.5mn, roughly 20pc below the previous three year average for the same time frame. Last year saw the fastest VLCC and Suezmax fleet growth, at 7pc and 5.4pc, respectively, of any year back to 2013, according to MSI. Despite declining freight rates and the recent barrage of new tonnage, shipowners seized the opportunity presented by low newbuilding costs, and in the first quarter placed orders for 12 new VLCCs, which would amount to around 3.5mn t of additional capacity. For comparison, 14 VLCCs were ordered in all of 2016, 66 in 2015, and 33 in 2014, according to the consultancy. This year's tally has already surpassed last year's, as Korea's Daewoo Shipbuilding and Marine Engineering agreed to build five VLCCs for Hyundai Merchant Marine with an option for five more. No Suezmax orders were placed in the first quarter, likely as a result of a robust existing orderbook for the 1mn bl tankers. Shipyards take roughly two years to construct an oil tanker.

Source: Argus.

INDUSTRY HEADLINES

PETROLEUM: Why VLCC rates in West Africa are firming

In an interesting turn of events, the VLCC market in West Africa rebounded from its lowest point in six months. Belying its usual trend of aligning with the AG market, VLCC rates on the WAF/East route grew by w1.5 points on the week to w55 last Thursday due to increased activity in WAF as well as owners' increasing refusal to lock in long-haul voyages at low returns. The lack of disadvantaged units in WAF also allowed owners to grab a premium for modern tonnage. The total number of ex-WAF VLCC fixtures last week grew by 62.5% w-o-w to 13, marking a four-week high. This reflected a surge in third-decade April loading cargoes which helped to tighten tonnage in the region. However, overall WAF April loading crude exports to Asia fell by 2.1% m-o-m to 2.07 mmb/d according to Reuters data. Demand from Asian buyers (notably China) was muted compared to the last two months due to heavy refinery maintenance in Asia which peaks in April. At least 2.5 mmb/d of refining capacity is likely to be shut in April, up by 1.2 mmb/d y-o-y. As we move into the fixing window for May loading cargoes, Asian demand for WAF crude may recover as refinery maintenance starts to ease in May. A narrow Brent-Dubai EFS will continue to incentivize the movement of barrels to the East.

Source: OFE Insights

LNG: Drewry trims long-term freight rate outlook for LNG shipping

Given the mounting pressure on freight rates and continuing fleet growth over the next two years, Drewry believes that excess vessel supply will reduce only gradually with the recovery in rates pushed back to the latter part of next year, according to the latest edition of the LNG Forecaster report. Drewry maintains a bearish stance on the LNG shipping freight rate outlook for 2017 on account of strong fleet growth which is expected to be around 13%. The movement in rates has so far been in line with Drewry's expectations, as rates have been falling since the beginning of year. The spot rate for dual-fuel diesel-electric (DFDE) vessels (East of Suez) is currently around $26,000 per day, compared to $37,000 per day in the beginning of the year, a fall of 30%. "The tremendous weakness observed recently in the freight market highlights the ample vessel supply. We are anticipating two years of aggressive fleet growth with supply expected to expand a further 9% in 2018 which will extend the period of weak freight rate development into next year. Therefore, we do not expect rates to start recovering until the end of 2018 when several new LNG trains from the US are expected to be operating at full capacity," said Drewry's lead LNG shipping analyst.

Source: Drewry

LNG: Cheniere's Sabine Pass LNG Train 3 commissioning complete

Houston-based LNG player Cheniere said the commissioning of its third liquefaction train at the Sabine Pass LNG export plant in Cameron Parish, Louisiana, has been completed. The company said that after reaching substantial completion on March 28, the project's EPC partner, Bechtel is turning over care, custody and control of Train 3 to Cheniere. Under a sale and purchase agreement with Korea Gas Corporation (Kogas), the date of first commercial delivery for Train 3 of the Sabine Pass liquefaction project is expected to occur in June 2017, upon which the sale and purchase agreement's (SPA) 20-year term commences, the company's statement reads. Cheniere is developing up to six trains at the Sabine Pass terminal with each train expected to have a nominal production capacity of approximately 4.5 million tons per annum of LNG. The first three liquefaction trains have now reached substantial completion, while the fourth train is in the commissioning process. Train 5 is under construction, and Train 6 is fully permitted and being commercialized. In total, Cheniere has signed six third-party LNG SPA's totaling approximately 19.75 mtpa of LNG from the first five liquefaction trains.

Source: LNG World News

Oil & Gas: IMF expects oil prices to hover at around $55 per barrel in 2017-2018

The International Monetary Fund (IMF) expects global oil prices to keep at around $55 per barrel in 2017-2018, according to the latest World Economic Outlook report. The average price of crude oil amounted to $42.84 per barrel in 2016, the document said. In 2017, the oil price is expected to reach $55.23 per barrel, while in 2018 it may go slightly down to $55.06 per barrel, report said. Looking ahead, the IMF says that "despite uncertainty about technological improvements and the recent OPEC agreement, rebalancing oil supply in line with demand accompanied by stable prices, will hinge on the prospects for unconventional sources."

Source: TASS