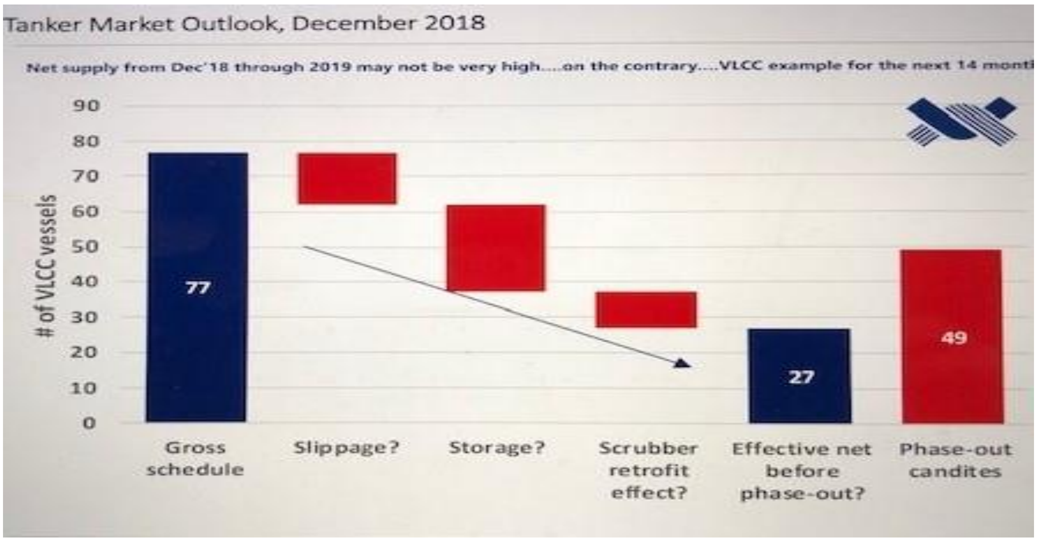
SHIPPING MUSINGS

Shipping executives are usually a happy bunch. Agreeing that markets either look good now - or if not, at least within the next 12 mths. Attending a couple of shipping gatherings in London and Oslo over the last fortnight or so confirmed this is still the case, but also, more importantly, demonstrated the divergent approaches among the companies in tackling the effects of IMO 2020. We are already seeing the first benefits of the new regulations in that the temperature in group meetings and panel debates have reached new heights as these executives slug it out over scrubbers or not. No wonder, as IMO 2020 draws closer and the shippers get increasingly challenged on their own strategy to tackle the issue. Diana Shipping`s Ioannis Safirakis view of HFO becoming obsolete from Jan 1st 2020 and that the «scrubberites» thus will have problems getting access to it demonstrates the extent of differences in views here..

While it is difficult to make the numbers on Ioannis assumption, it is not difficult to sympathize with those who take a more cautious view on putting capital at risk on something that most players agree will only be a temporary phenomenon. A case in point is Euronav. Laying out the rationale for not putting incremental shareholders money at risk on something he doesn`t have sufficient visibility on, CEO Paddy Rogers came across as the most «industrial» thinker in the space in a 1-2-1 I had with him, his views very much opposing those of Star, DHT, Frontline a.o. With roughly a year to go he also seems optimistic on the testing of blends they are doing in their own lab and that they together with the refiners will come up with a blend that works and that will handily beat the 0.1pc MGO on cost. The extent to which blended fuel can be a solution is the most important issue to get a grip on. It may work for Euronav, but it won`t save the industry as you`d still need more diesel for the blend than what can reasonably be expected on current refinery capacities. Still, I like Paddy`s capital discipline and I am sure that the tanker business over the long haul would be a more healthy business if other players shared that feat.

To sum up; opinions on 2020 and its aftermath varies. The different approaches pursued is probably what you need to balance the market; ie some invest in scrubbers and secure continued uptake for HFO, some cross their fingers for enough MGO to be available at an affordable price or pass it on to their customers while others try to optimize through blends. A diesel driven rally and spread widening is still likely as it is hard to see that the refiners have the capacity to supply what is needed, implying «non-comply» certificates to some extent will be an issue as well. What we DO know, is that a large part of the fleet will be out of service in 2019 while installing scrubbers…



Source: Fearnleys

Fearnley assume around 10 vessels, or approx 1,5pc of the VL`s, will be out of service due to srubber retrofits. The most obvious candidates to benefit from that through a tighter market is of course the players refraining from it, eg Euronav. With the stock trading at a large discount to it`s more scrubber-friendly peers, that may ironically make the non-scrubber Euronav the most immediate beneficiary of the IMO 2020 in the space over the next few months.

On rates, most segments are at or just passed seasonal highs, whether you look at dry, crude, LPG or LNG. VL`s are still hanging in there at a hefty $50k per day, I`d expect these to give up gains as well into the seasonal slow Q1 and drag MR and LR that have seen rates double over the last few weeks with them. Next buying opportunity ought to arrive come the end of the Q1 lull, with LNG, VL`s and product as the most exciting trades going into 2h`19.

Oslo, 18122018

Ståle