
The State of the Industry

May 26th, 2020 – 05:00hrs!

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Blue Insight

IMO 2020 - THE GREAT DISSAPPOINTMENT

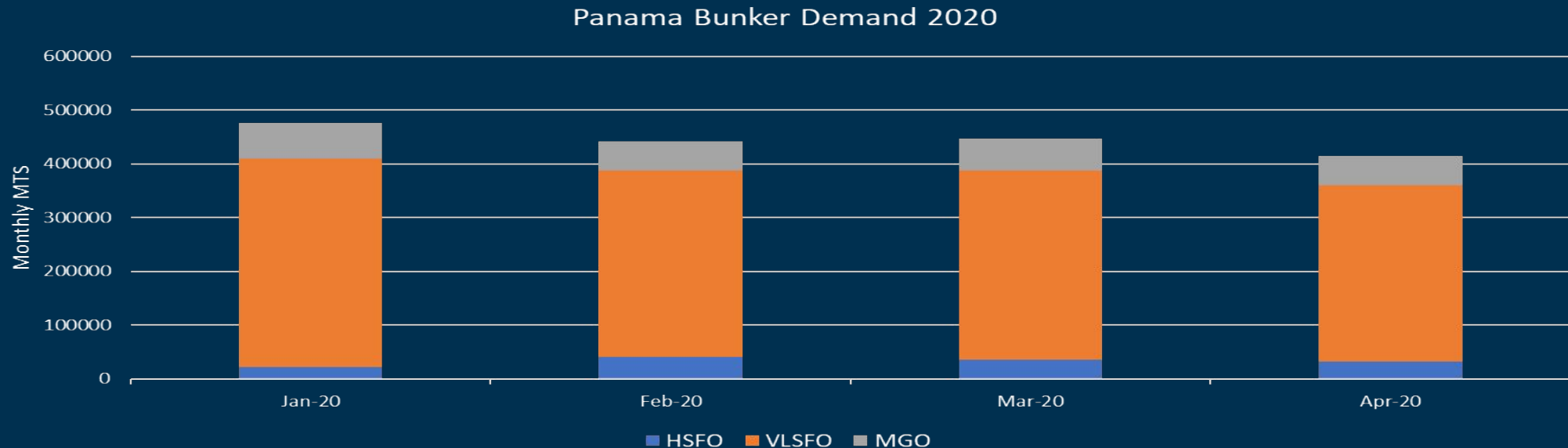
- **Demand & Supply - Prediction**

- **VLSFO: Demand** would be slow at transition due to limited availability and quality concerns – longer term it would gradually dominate – as long as no really bad claim incidents! **Supply** would initially be tight with an underdeveloped supply chain. Specialist niche suppliers (and producers) would profit. VLSFO would not be available in every port
- **MGO:** Share almost equally in **demand** at transition with VLSFO. A big winner initially but **supply** would compete with other diesel markets leading to dangerous tightness. Continues as an important (safety) option post 2020 but declines slowly as VLSFO supply chain develops
- **HSFO: Demand** would collapse, only supported by vessels with scrubbers and non-compliance. HSFO **supply** (oversupply) might overwhelm refiners leading to distressed selling and serious financial damage to refining and crude economics

IMO 2020 - THE GREAT DISSAPPOINTMENT

• Demand & Supply- Reality

- **VLSFO:** High demand. Everyone wanted VLSFO! After initial logistic disruption ample **supply** availability and multiple new entrants into the supply (bulk and retail) markets. Some 2020 business plan economics failed
- **MGO:** Almost no change in demand. No one anywhere wanted diesel. No **supply** issues.
- **HSFO:** HSFO demand collapsed! **Supply** collapsed even faster! HSFO relatively tight as refiners adjusted and HSFO became feedstock of choice!



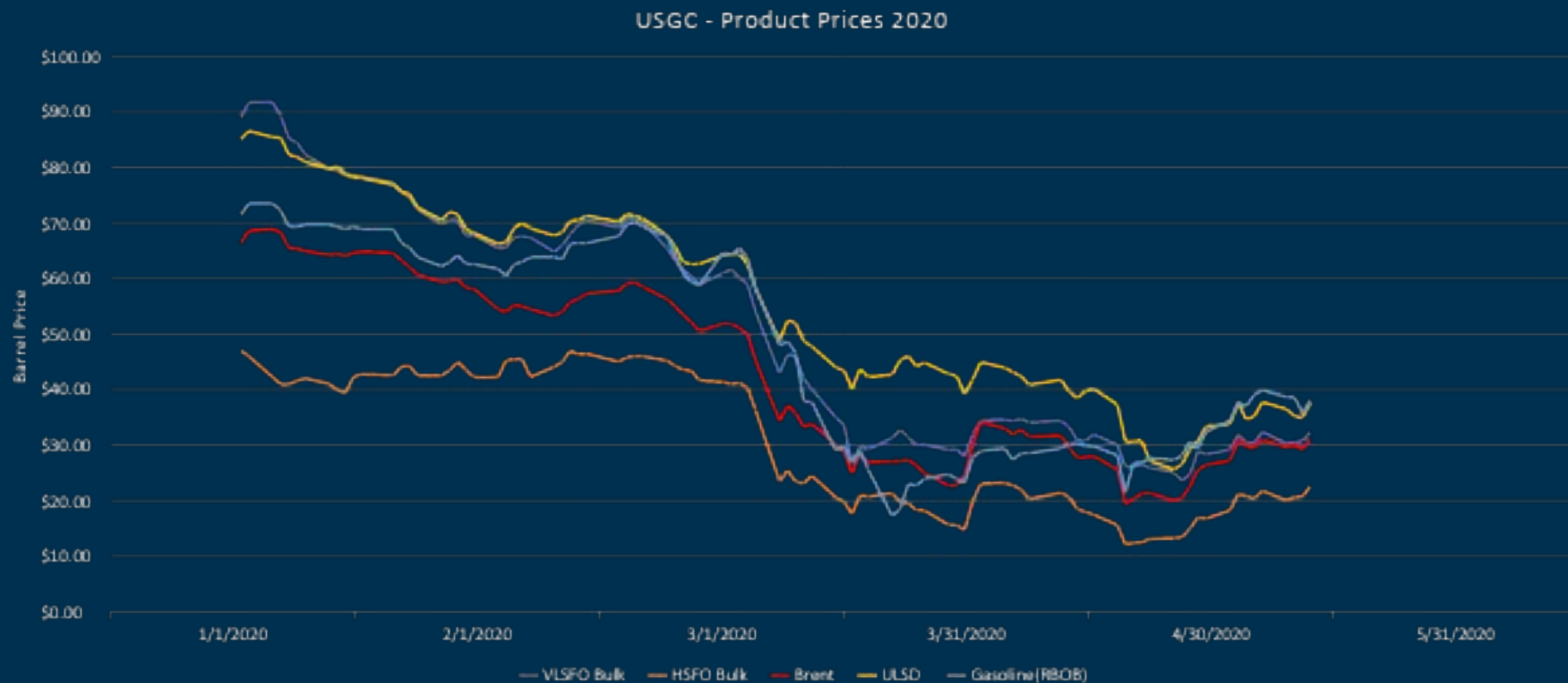
IMO 2020 - THE GREAT DISSAPPOINTMENT

- **Prices – Prediction**

- **VLSFO:** Price to surge in Q4 2019 staying high for some time until supply chain adjusts. Premium to Brent +\$15-20/barrel with higher prices possible! Discount to diesel postings assumed \$30-50/mt
- **MGO:** Prices to surge even higher than VLSFO. Potential for significant global diesel price rise driven by high marine demand – panic!
- **HSFO:** Prices to collapse to coal/power equivalency. Negative HSFO prices possible at refinery!

IMO 2020 - THE GREAT DISSAPPOINTMENT

• Prices – Reality

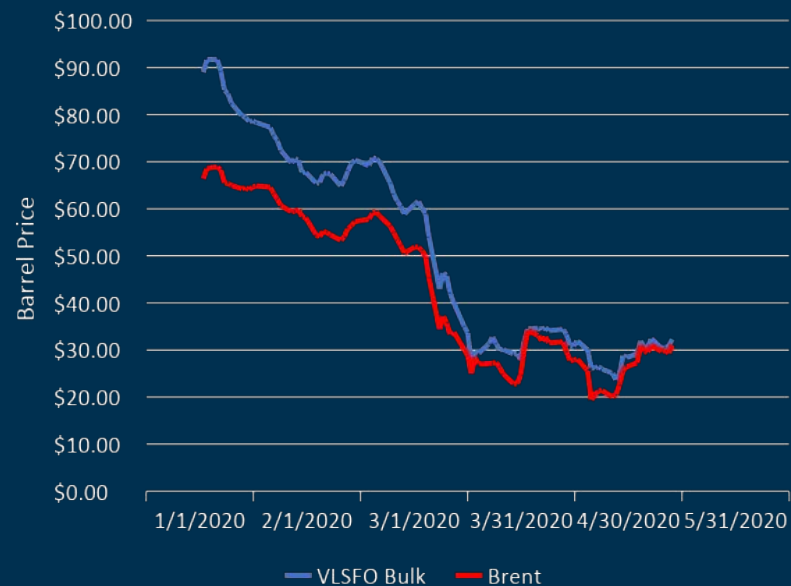


IMO 2020 - THE GREAT DISSAPPOINTMENT

• Prices – Reality

- **VLSFO:** Price surge lasted just 7-8 weeks - \$20/barrel premium to Brent rapidly fell to single digits. VLSFO discounts to diesel less than expected. Supplier margins falling from late January as VLSFO rapidly commoditized! Later - retail VLSFO drops below bulk!

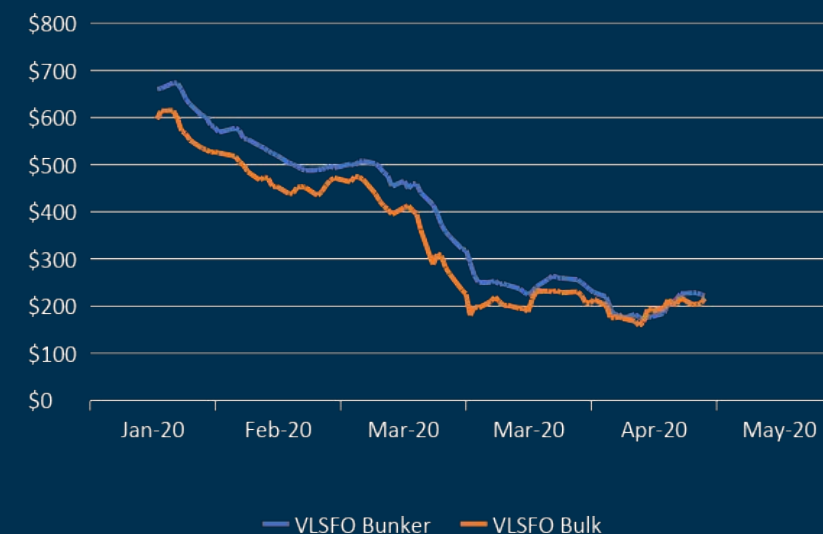
USGC - VLSFO/Brent



USGC - VLSFO/ULSD



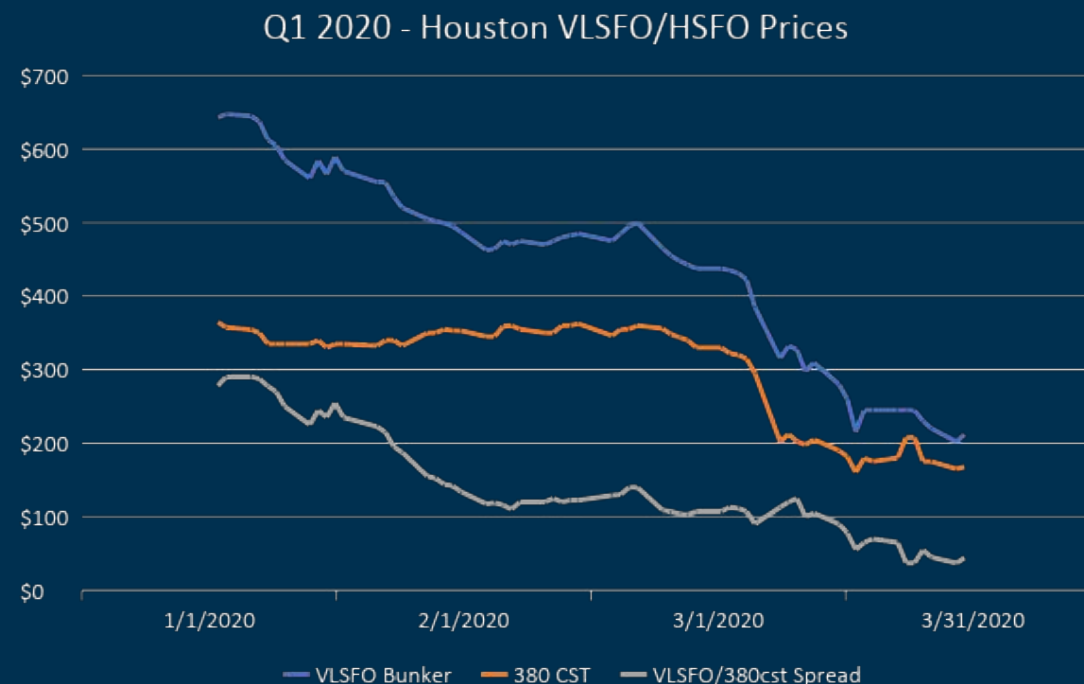
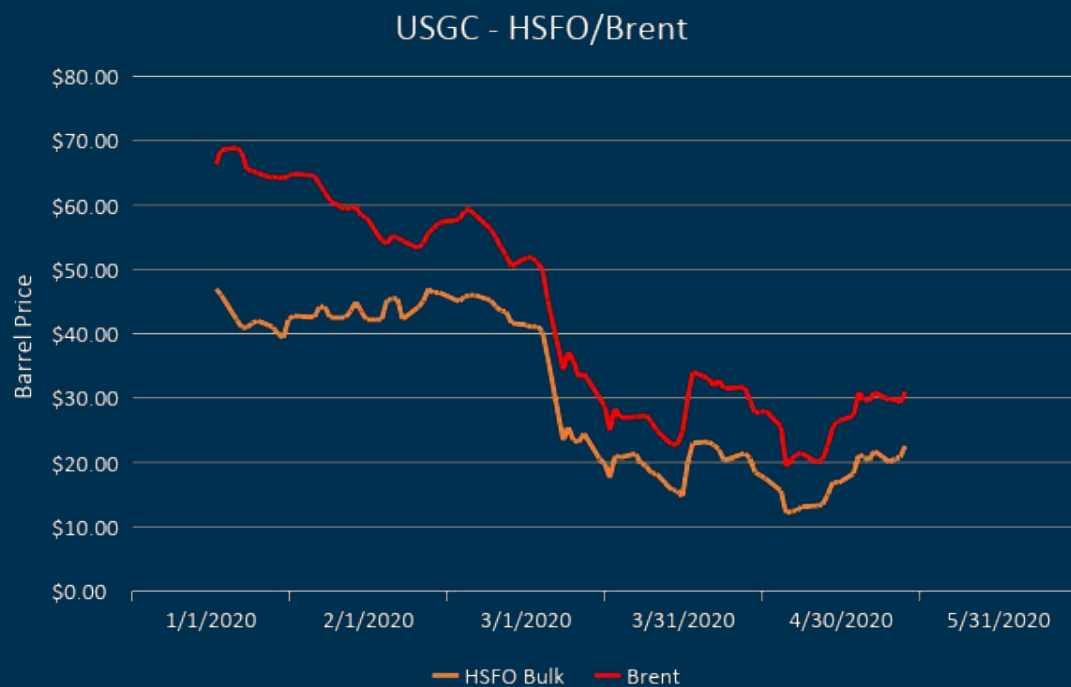
Houston - VLSFO 2020



IMO 2020 - THE GREAT DISSAPPOINTMENT

• Prices – Reality

- **HSFO:** Prices very strong - no price collapse transpired. HSFO crack at historical norms. Scrubber model damaged as initially high HSFO/VLSFO spread narrowed considerably by January.



IMO 2020 - THE GREAT DISSAPPOINTMENT

- **Quality – Prediction**

- Transition issues with fuel systems as switch from HSFO to VLSFO
- Sediment and compatibility issues to dominate with new unstable fuels – aromatic and paraffinic do not mix!
- Supply chain lacks oversight and unable to cope with these issues – lots of ill-considered blends and commingling in cargo, tanks, barges and ships!
- Replay of 2018

- **Quality – Reality**

- ?????

2020....AND THEN CAME THE CORONAVIRUS

An unanticipated major historical event which at all levels of economy and society has laid bare issues and accelerated changes already being seen – The bunker supply chain is no different:

Disruption and the Acceleration of Change – Dramatic shift in prices

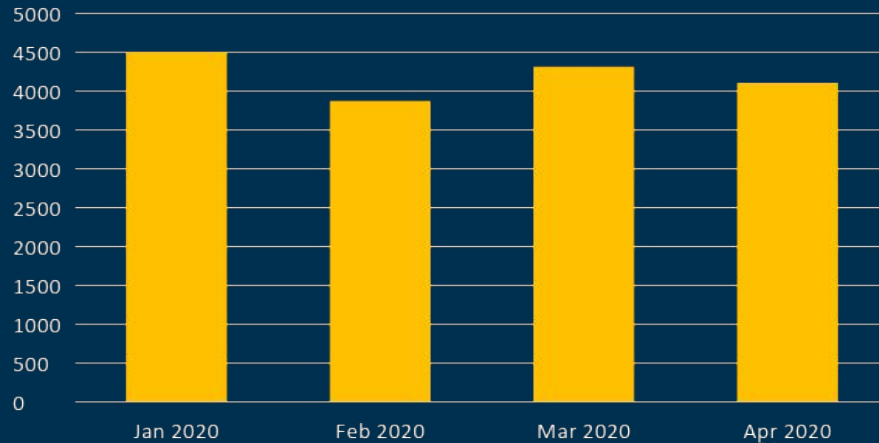
- **Price Impact**

- HSFO higher than expected – scarcity continues and distressed HSFO refiners shutting in capacity
- VLSFO lower than expected – Gasoline demand drop liberated VGO. VLSFO trading at premium to products except diesel. VLSFO good return for refiners so oversupply = lower prices
- Diesel fastest to recover due continued demand from transportation

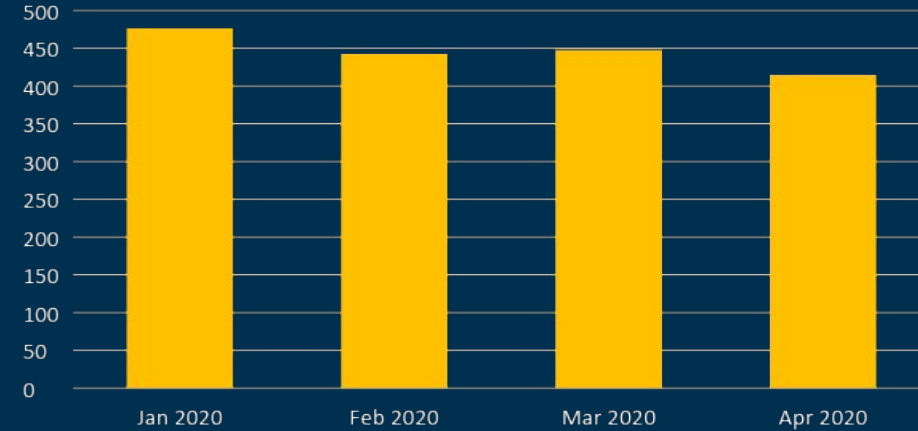
2020....AND THEN CAME THE CORONAVIRUS

Disruption and the Acceleration of Change – Demand destruction....?

Singapore Monthly Bunker Sales 2020 (MTS)



Panama Monthly Bunker Sales 2020 (MTS)



Singapore Bunker Demand 2004-2019



2020....AND THEN CAME THE CORONAVIRUS

Disruption and Acceleration of change - Supply structure already shifting with new suppliers, new producers, credit and in a future energy transition as its focus:

Pre-2020 Marine Fuel Market Volume and Revenue

	2019 Average Bunker Price	Millions MT	Billion \$
MGO	\$ 700	35	\$25
HSFO	\$ 430	265	\$114
		300	\$138

Pre-2020 Marine Fuel Market Volume and Revenue by Seller

	Physical Supplier MMT	Credit Sale to Shipowner MMT	Final Sale to Shipowner Billion \$
Bunker Traders	25	100	\$46
Majors/Refiners	115	75	\$35
Independent Suppliers	60	40	\$18
Commodity Traders	100	85	\$39
	300	300	\$138

Post-2020 Marine Fuel Market Volume and Revenue

	2020 Average Bunker Price	Millions MT	Billion \$
MGO	\$ 480	36	\$17
VLSFO	\$ 425	198	\$84
HSFO	\$ 276	36	\$10
		270	\$111

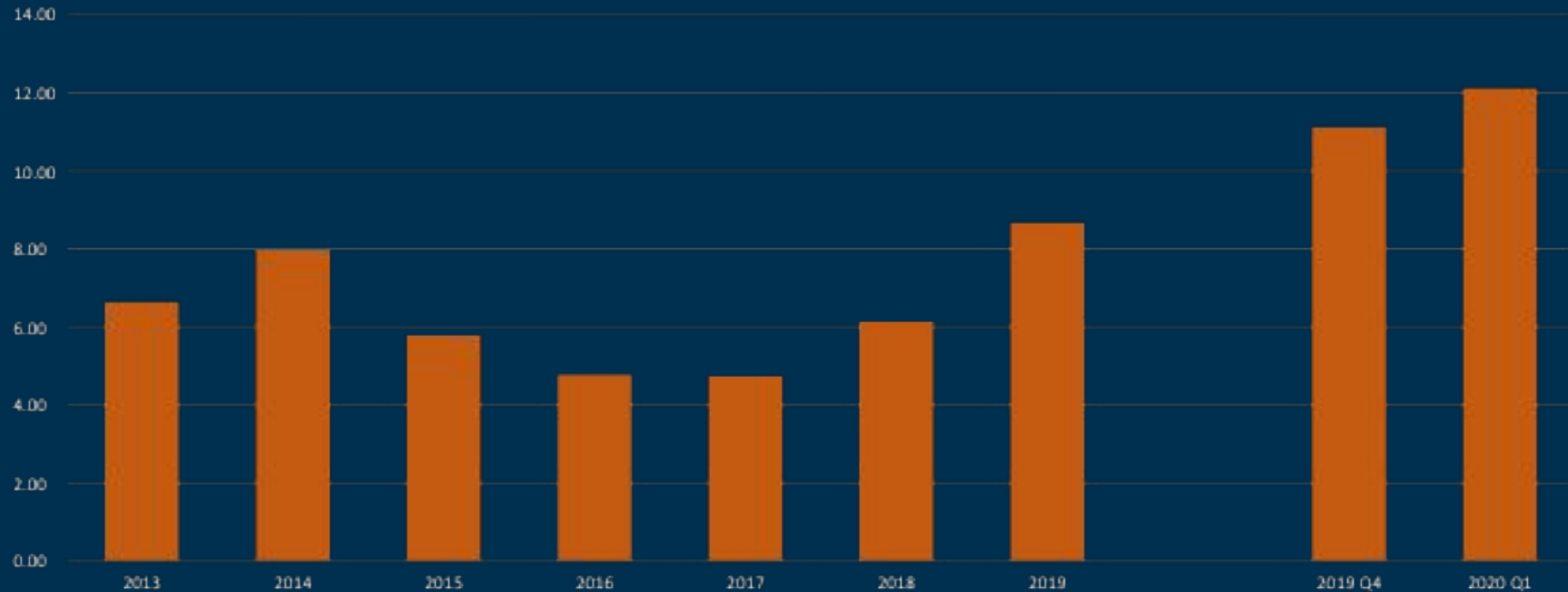
Post-2020 Marine Fuel Market Volume and Revenue by Seller

	Physical Supplier MMT	Credit Sale to Shipowner MMT	Final Sale to Shipowner Billion \$
Bunker Traders	27	108	\$45
Majors/Refiners	112	68	\$28
Independent Suppliers	31	28	\$12
Commodity Traders	100	66	\$27
	270	270	\$111

2020....AND THEN CAME THE CORONAVIRUS

Disruption and Acceleration of change – Not bad for all?

WFS Gross Margins /MT \$



2020....AND THEN CAME THE CORONAVIRUS

Disruption and Acceleration of Change – Credit pressures

- **Weakness** in all shipping sectors (except temporarily tankers) most of it yet to be felt – Subsidies and loans for Cruise (US Fed) and Containers (France, Taiwan, Korea etc.) but Bulkers and Tankers massively exposed
- **...and then came Hin Leong - \$3.6B and 23 of the world's largest commodity banks!**
 - Liquidity of bunker supply chain damaged by successive bankruptcies particularly in Singapore (but let's not forget OW and Aegean!)
 - Oil trading supply chain liquidity now massively impacted by Hin Leong collapse – banks have more and more concern regarding counterparties and asking more and more questions – credit is simply harder to get for anyone in supply chain
 - Bunker suppliers and bunker Buyers – will suffer the most as lines disappear for both suppliers, traders and buyers
 - Can we finance the supply chain - even with lower interest rates, prices and total exposure!?

2020....AND THEN CAME THE CORONAVIRUS

A Likely Future??

- Low overall prices
- Lower Demand – more influenced by efficiency than “predicted” end of globalization
- Tighter credit across supply chain
- New entrants may come and go but bigger well capitalized companies will dominate supply chain
- Bigger well capitalized companies will prevail in shipping
- 2020 transition, greater transparency and shift to decarbonization favors larger more innovative companies
- Independent bunker suppliers and even bunker traders (destined to replaced by blockchain?) have a difficult future