
Future Trends in the Global Bunker Market

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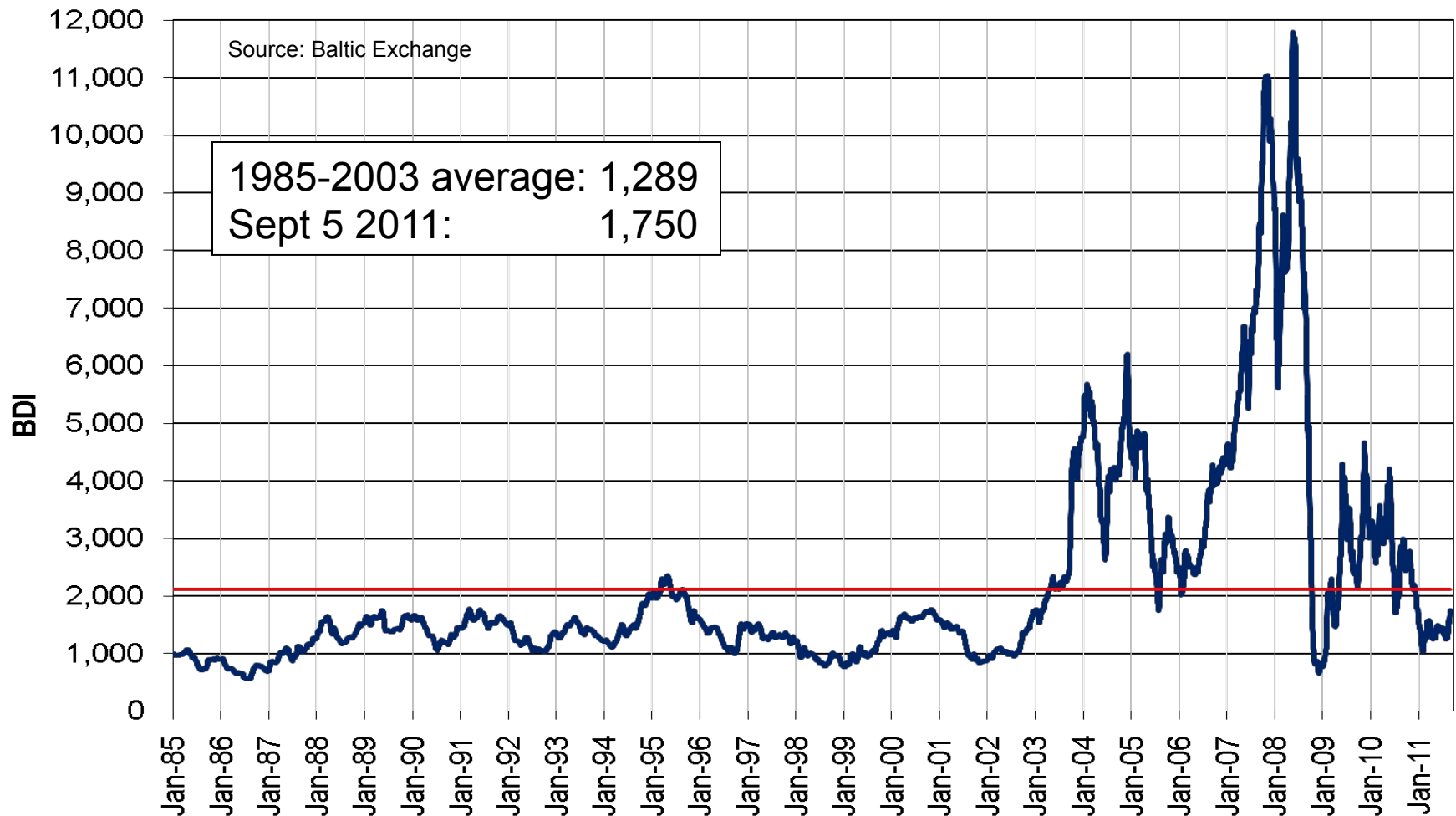
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Summary

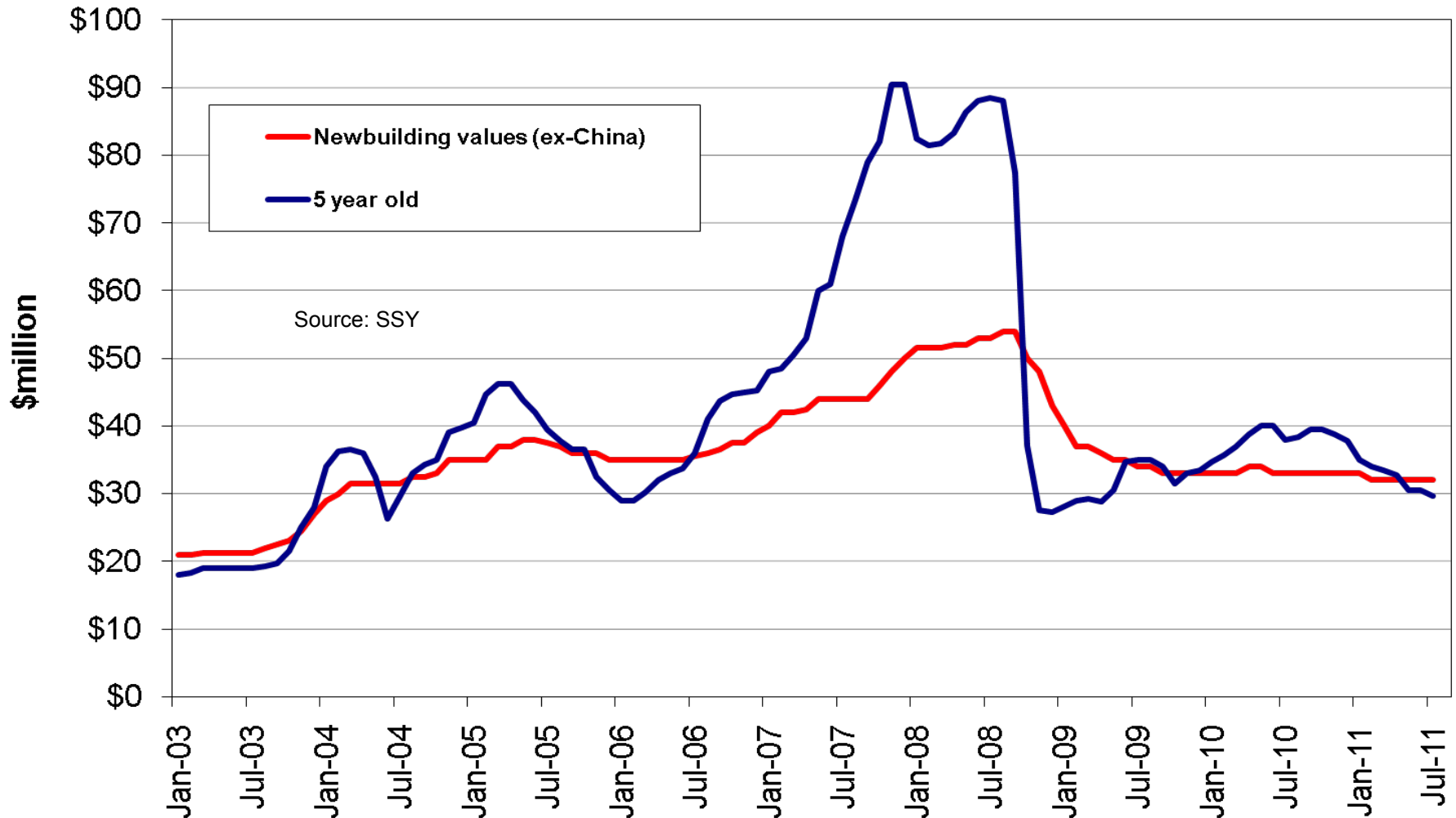
- The Freight market environment
 - Dry bulk market review & outlook
 - Tanker market review & outlook
- The bunker component of spot freight rates
 - Slow steaming as a cost saver
- Impact of legislation/standardisation on bunker costs

Dry Bulk & Tanker Markets review and outlook

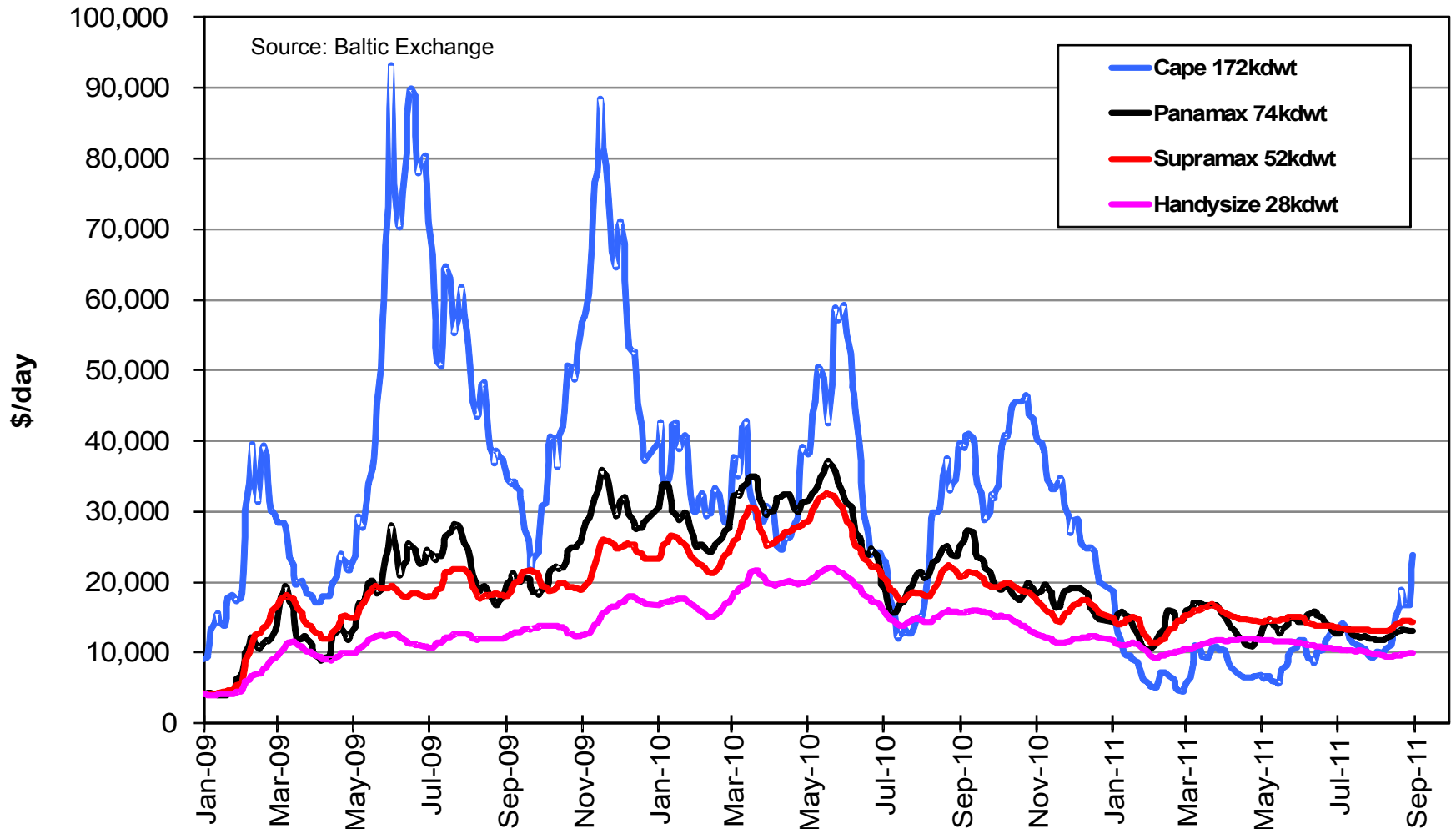
Baltic Dry Index – what's the issue, lower levels have been seen before?



The problem – more expensive finance (example: dry bulk Panamax)



Baltic index average timecharter rates



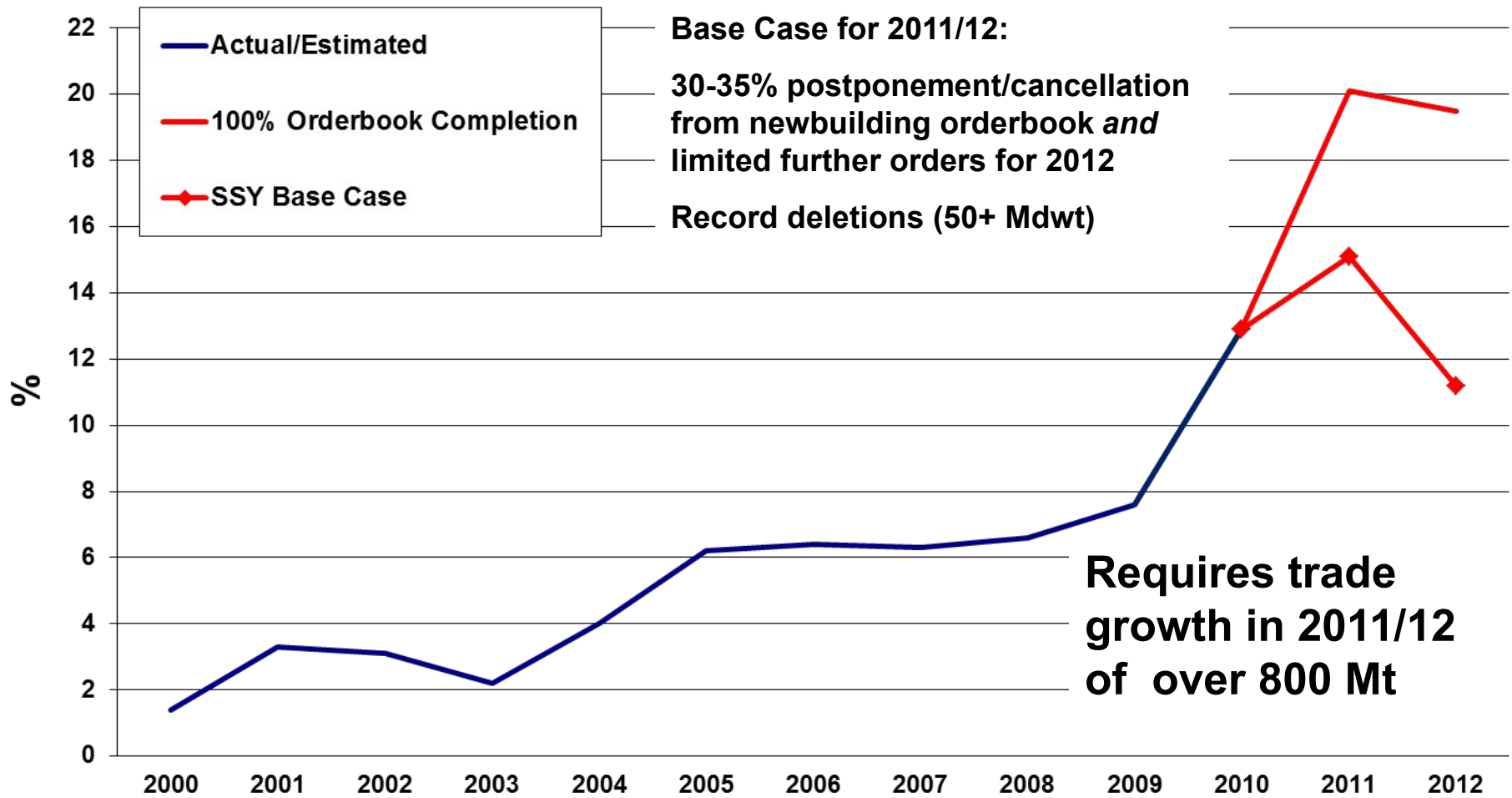
the dry bulk market story in 2011...

- trade volumes shaped by export cargo availability
 - coal from Queensland & iron ore from Australia & Brazil
 - India iron ore export ban, monsoon & further restrictions?
 - Japanese earthquake
 - followed by recovery in cargo supply...
- rapid growth in fleet supply
 - record newbuilding deliveries swamp higher scrapping

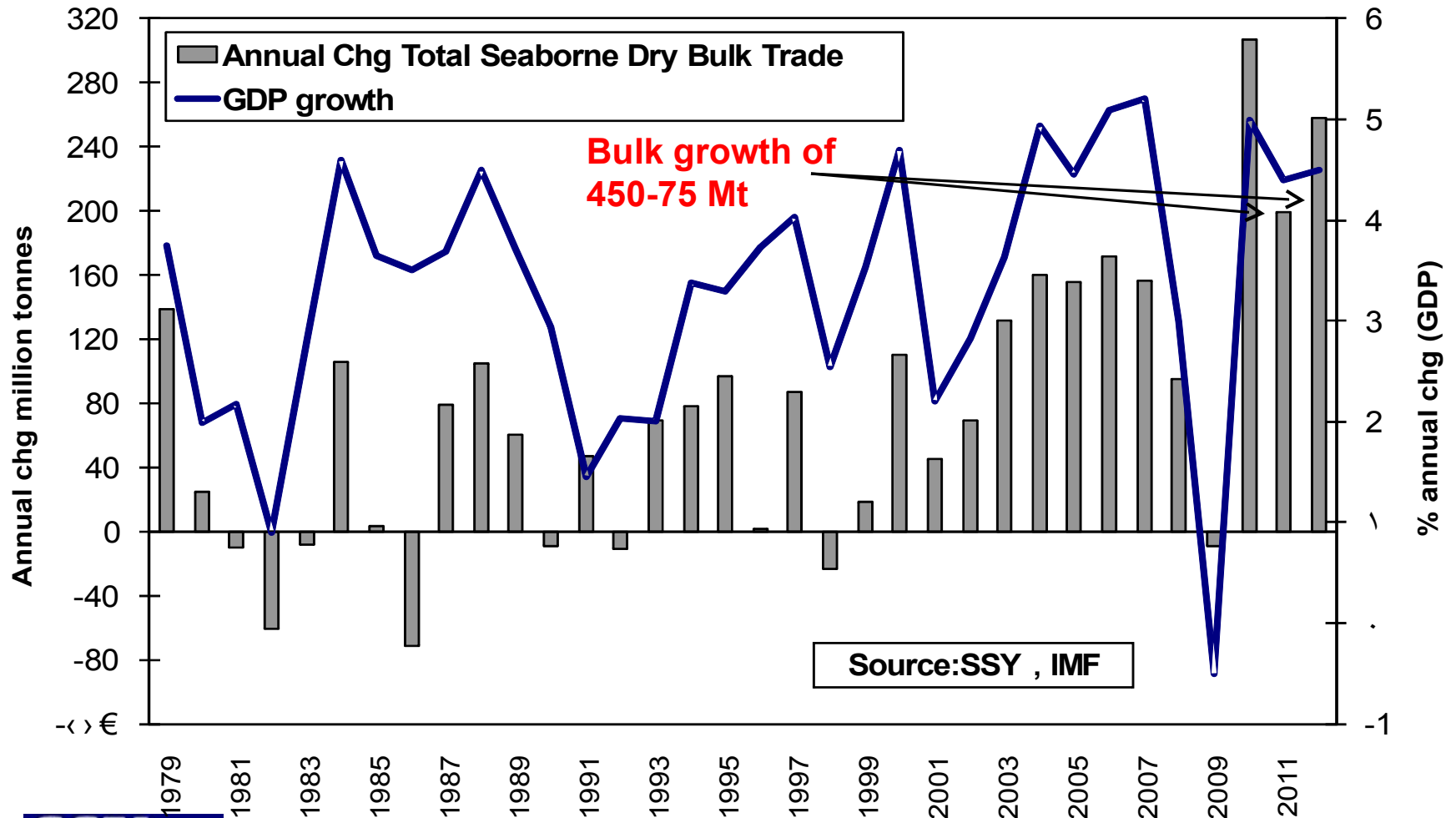
average dry bulk carrier spot market earnings (\$/day)

	Jan-Aug 11	Jan-Aug 10	Chg (%)
Handysize	10,793	17,819	-39%
Supramax	14,220	24,578	-43%
Panamax	13,814	27,655	-50%
Capesize	9,575	32,425	-70%

bulk carrier fleet supply growth: annual average percentage change



However... world GDP & dry bulk trade growth points to slower bulk growth



three key pre-conditions for recovery

- major expansion in coal & iron ore export capacity
 - approx 1 billion tonnes of new annual iron ore export capacity due by 2015
- record scrapping
 - China to boost shipbreaking capacity?
- sharp slowdown in newbuilding deliveries
 - Chinese policy goals
 - new eco-designs to trigger fresh ordering?

negative risks to bulk trade rebound

- China import slowdown
 - increased domestic iron ore production
 - government slowdown measures
- world steel industry margins threatened
- fall in Japan's industrial output under-estimated
- European sovereign debt crisis
- rebound in cargo supply over-estimated
 - delayed recovery in Queensland/further legal challenges to Indian iron ore/labour disputes

Tanker supply is dominating dirty fundamentals, but clean improving

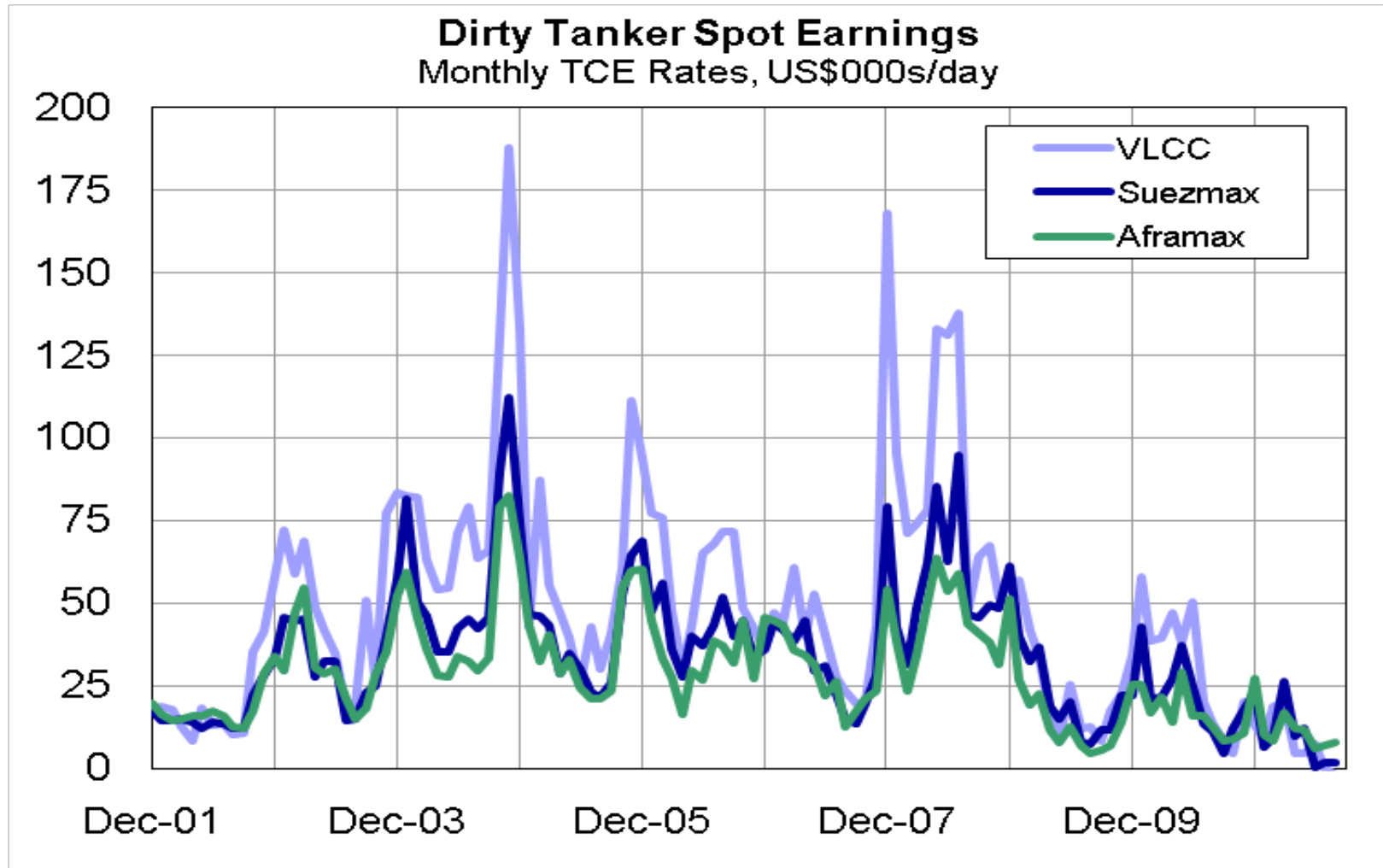
Dirty market outlook looking increasingly grim

- Fleet supply to overwhelm demand growth
- High oil prices pressuring consumption growth
- Crude spreads suppressing WAFR-East trade
- Canadian supply and global pipeline projects
- OECD refinery closures offset non-OECD growth

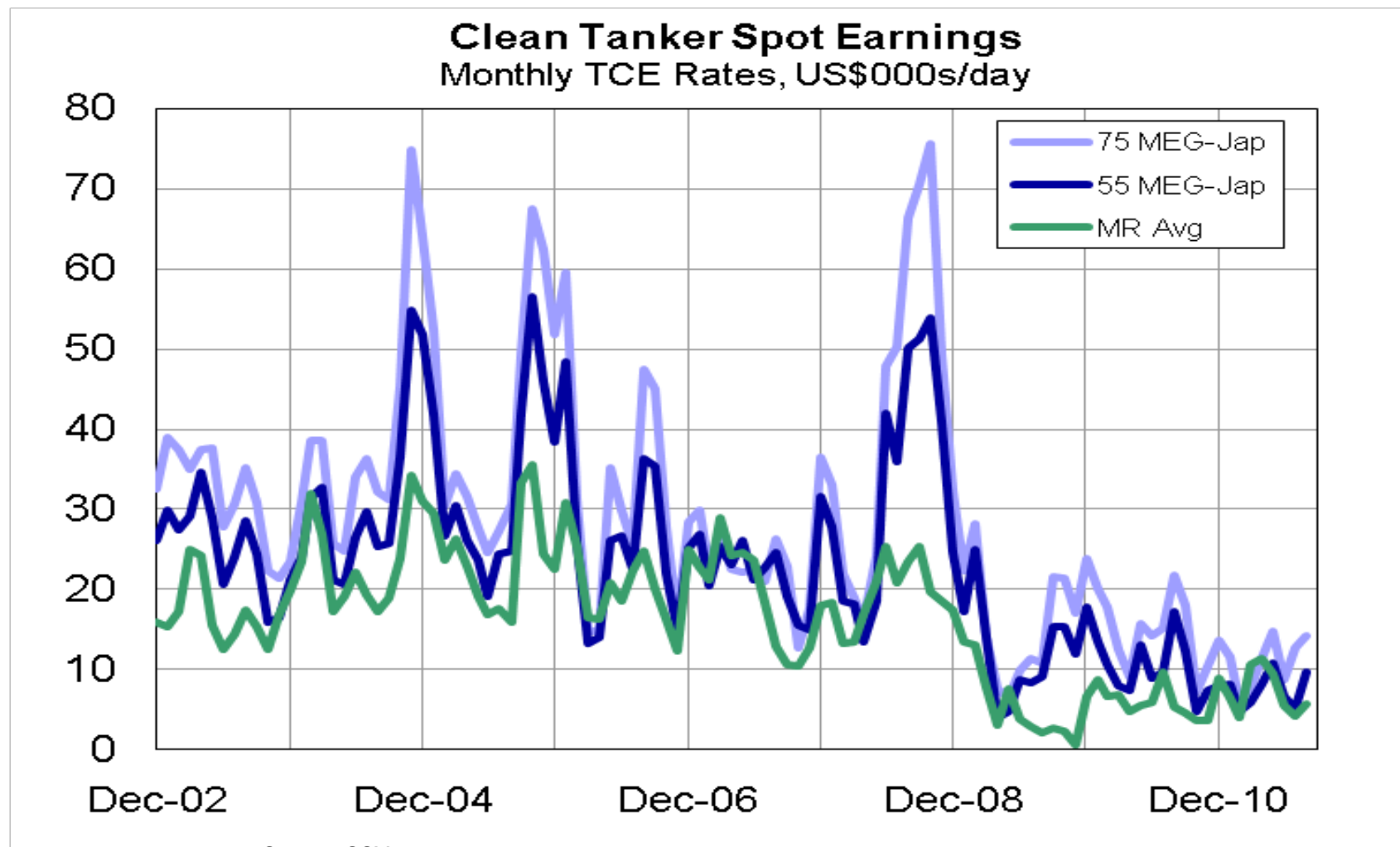
Clean prospects brightening on slowing supply

- 40% of new refining capacity in exporting nations
- OECD rationalisation driving regional deficits

dirty tanker earnings languish at low levels...



Clean LR's have benefited from storage and naphtha demand, MRs poor



Source: SSY

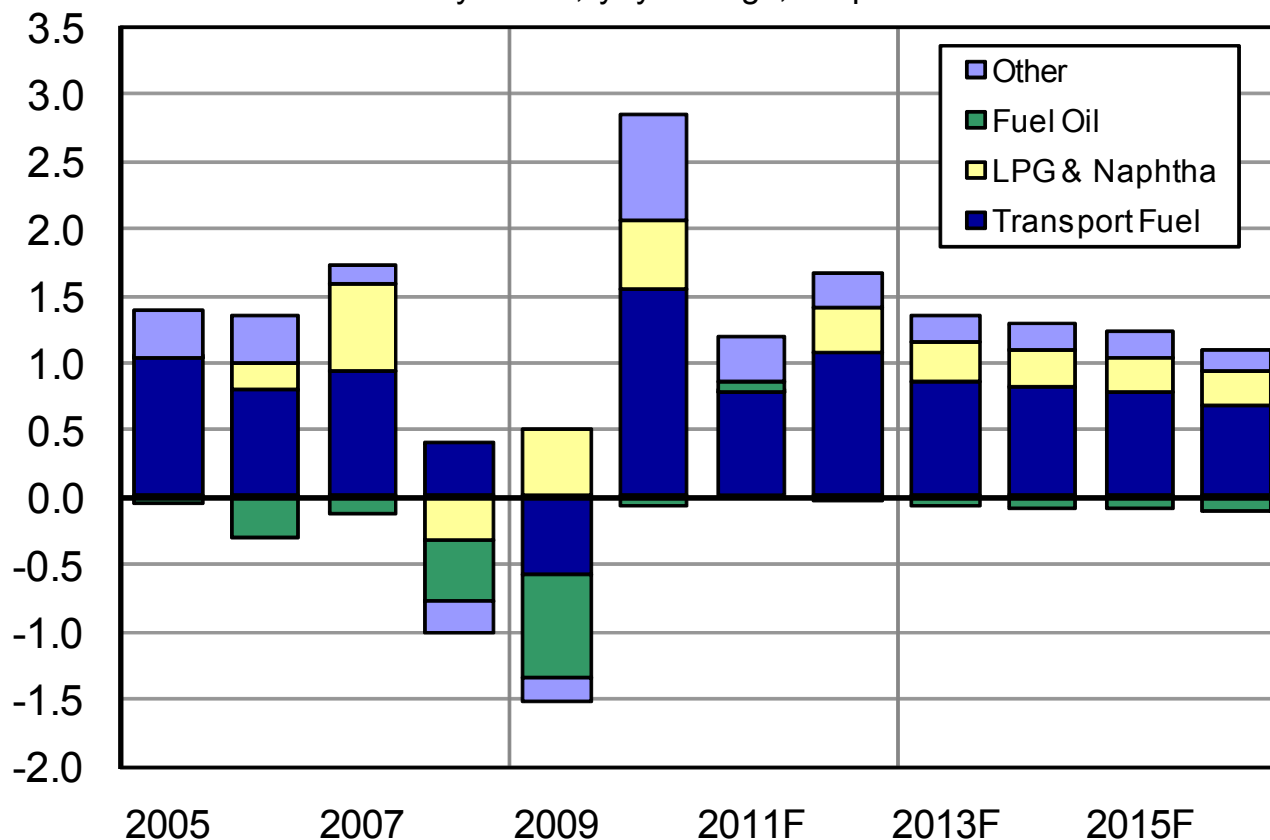
Average tanker spot market TCEs (\$/day)

	Jan-Aug 11	Jan-Aug 10	Chg (%)
VLCC	7,807	38,125	-80%
Suezmax	9,554	27,525	-65%
Aframax	10,033	18,966	-47%
LR1 (MEG-Japan)	7,432	11,062	-33%
MR	7,193	6,673	+7%

Transport fuel remains primary driver of global oil demand; fuel oil shrinking

Global Oil Product Demand

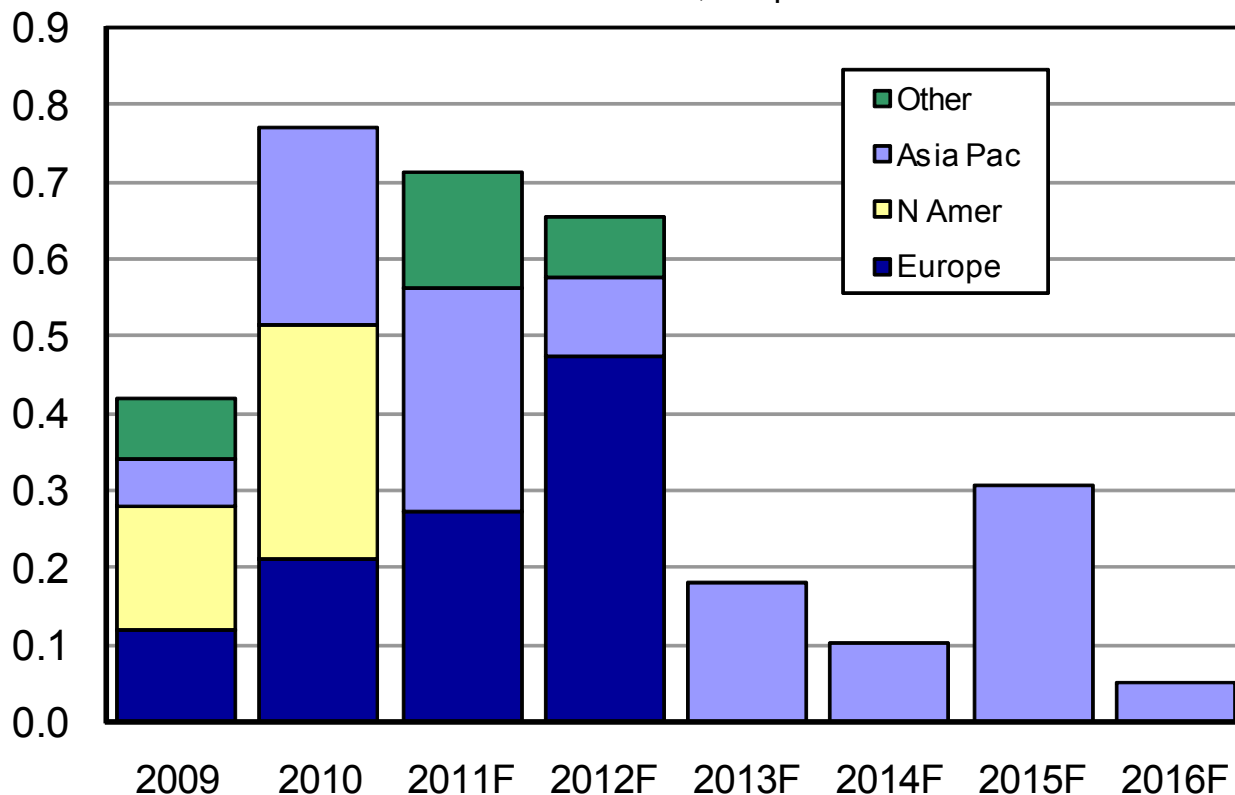
By Grade, yoy Change, mbpd



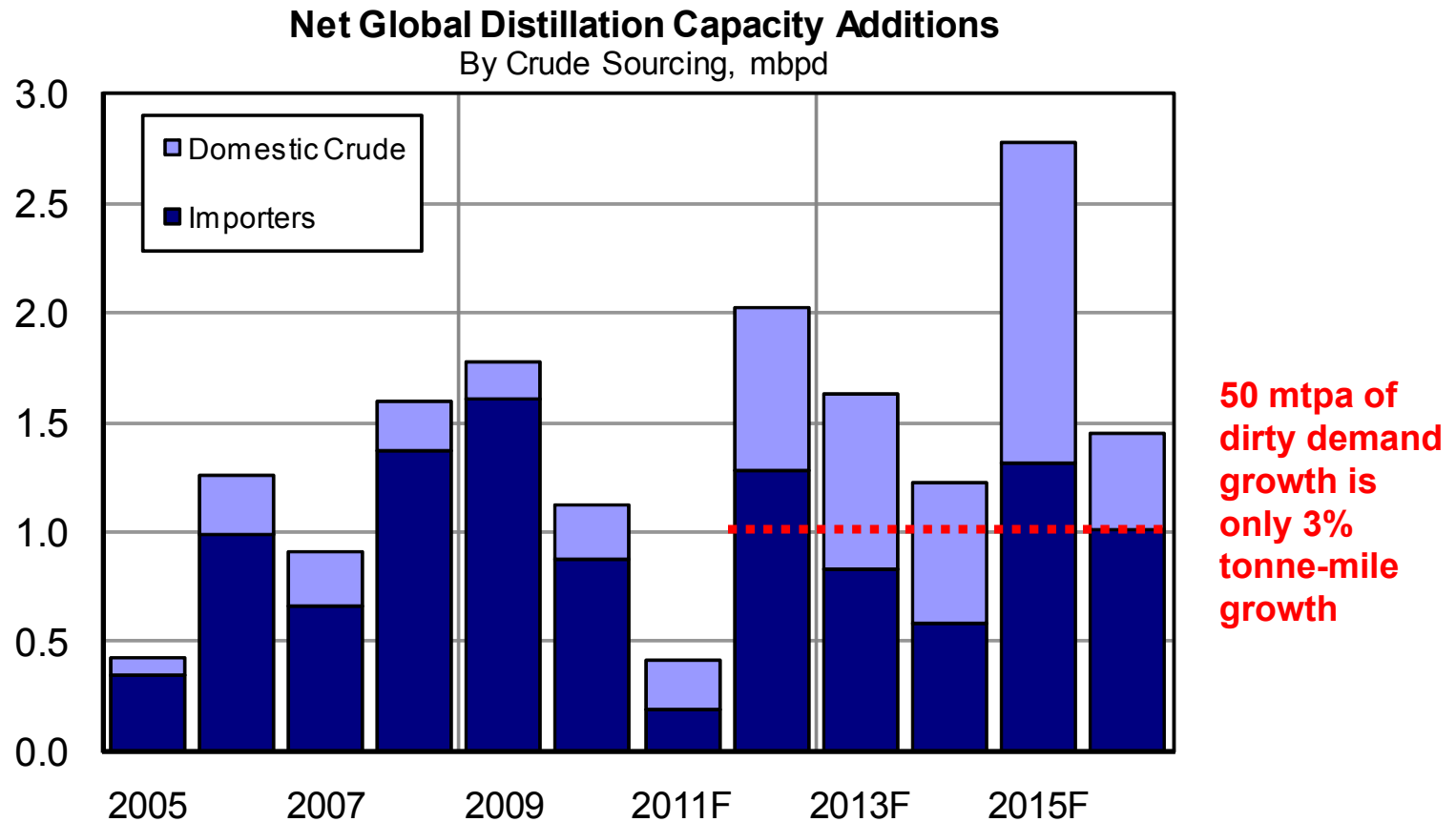
Refining overcapacity forcing shutdowns in OECD long-haul locations

Distillation Capacity Shutdowns

Annual Removals, mbpd



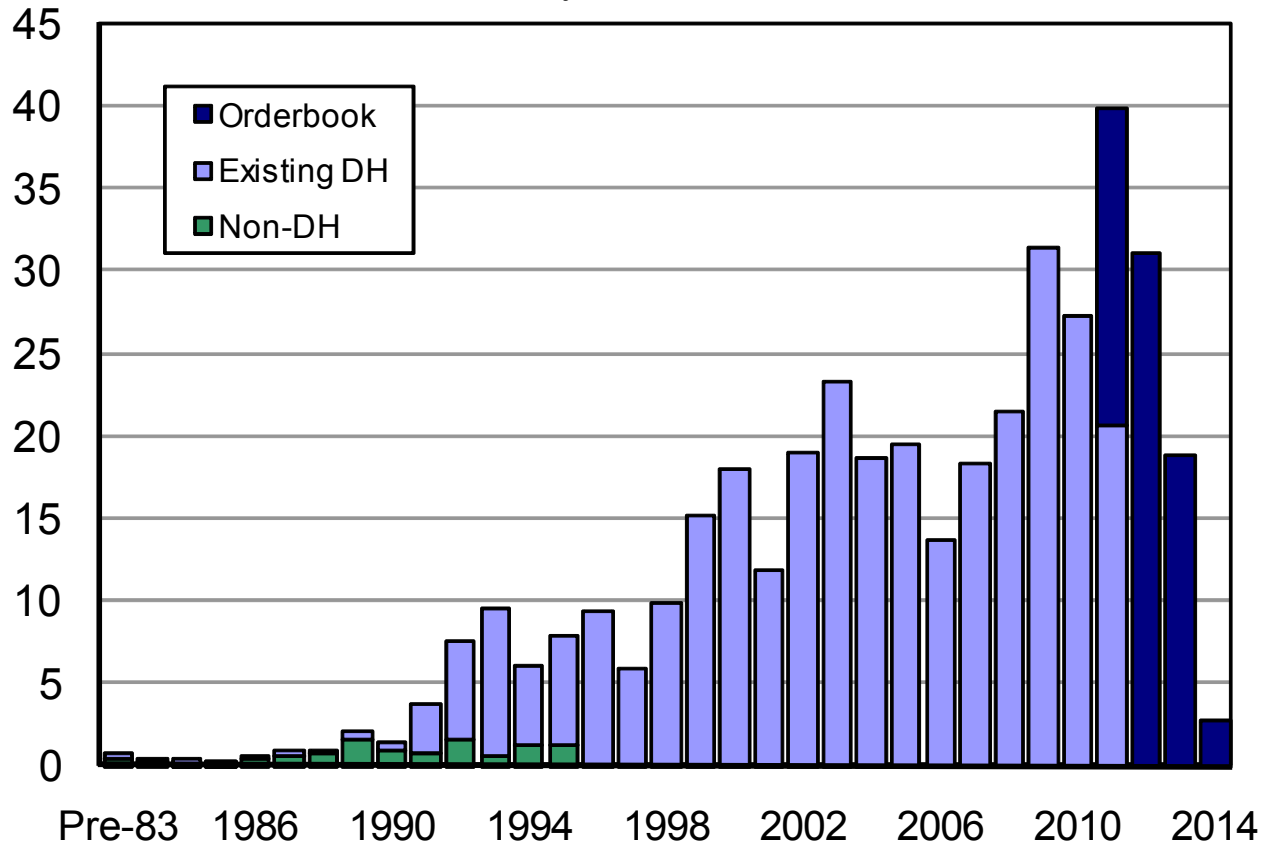
Refining growth in exporting countries will boost clean tanker demand, limit dirty



Slippage from 2010 has exaggerated 2011 delivery schedule, but threat remains

Dirty Tanker Fleet Age Profile

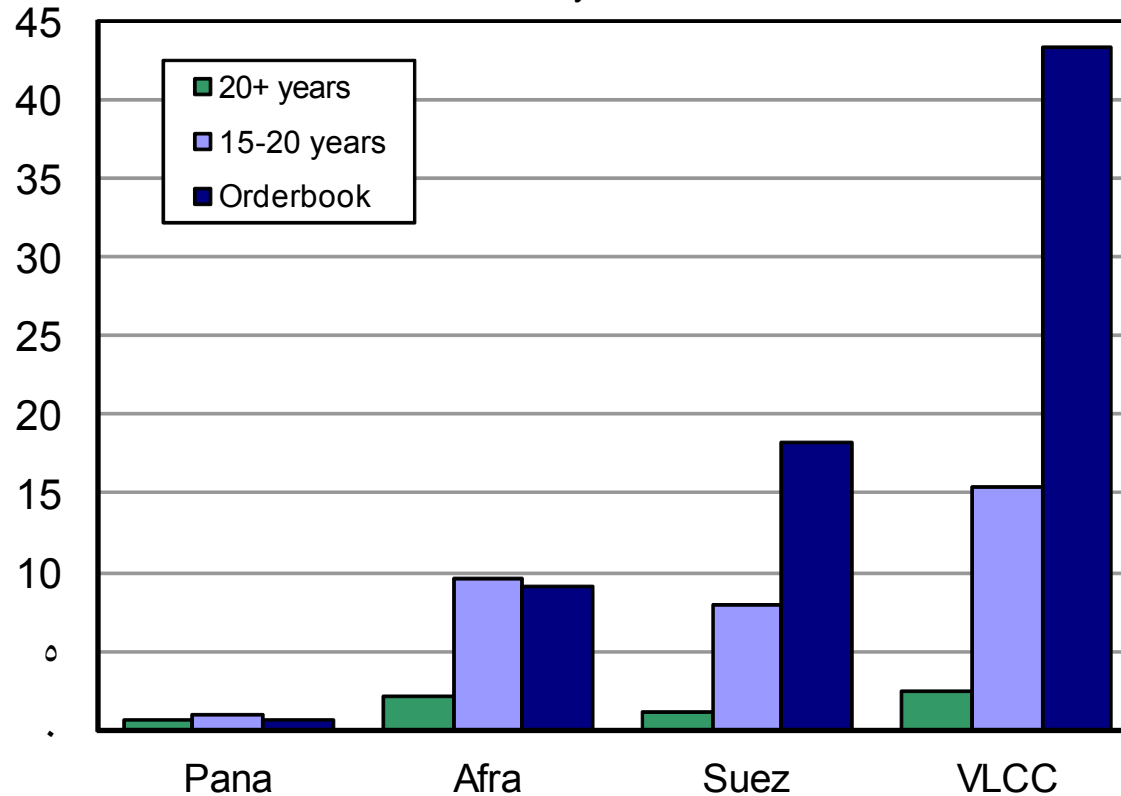
As of 31 July 2011, dwt millions



Single-hull removals have limited immediate demolition candidates

Dirty Tanker Orderbook vs. Older Tonnage

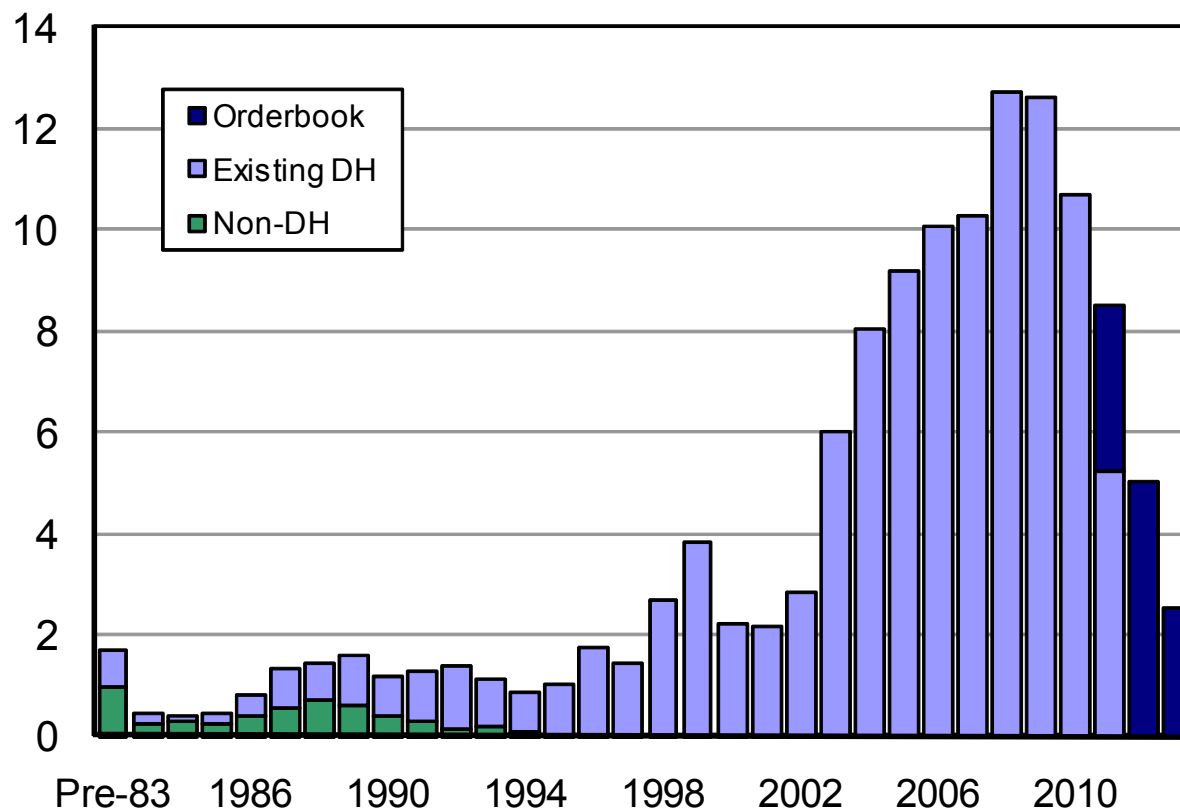
As of 31 July 2011, dwt millions



Source: SSY

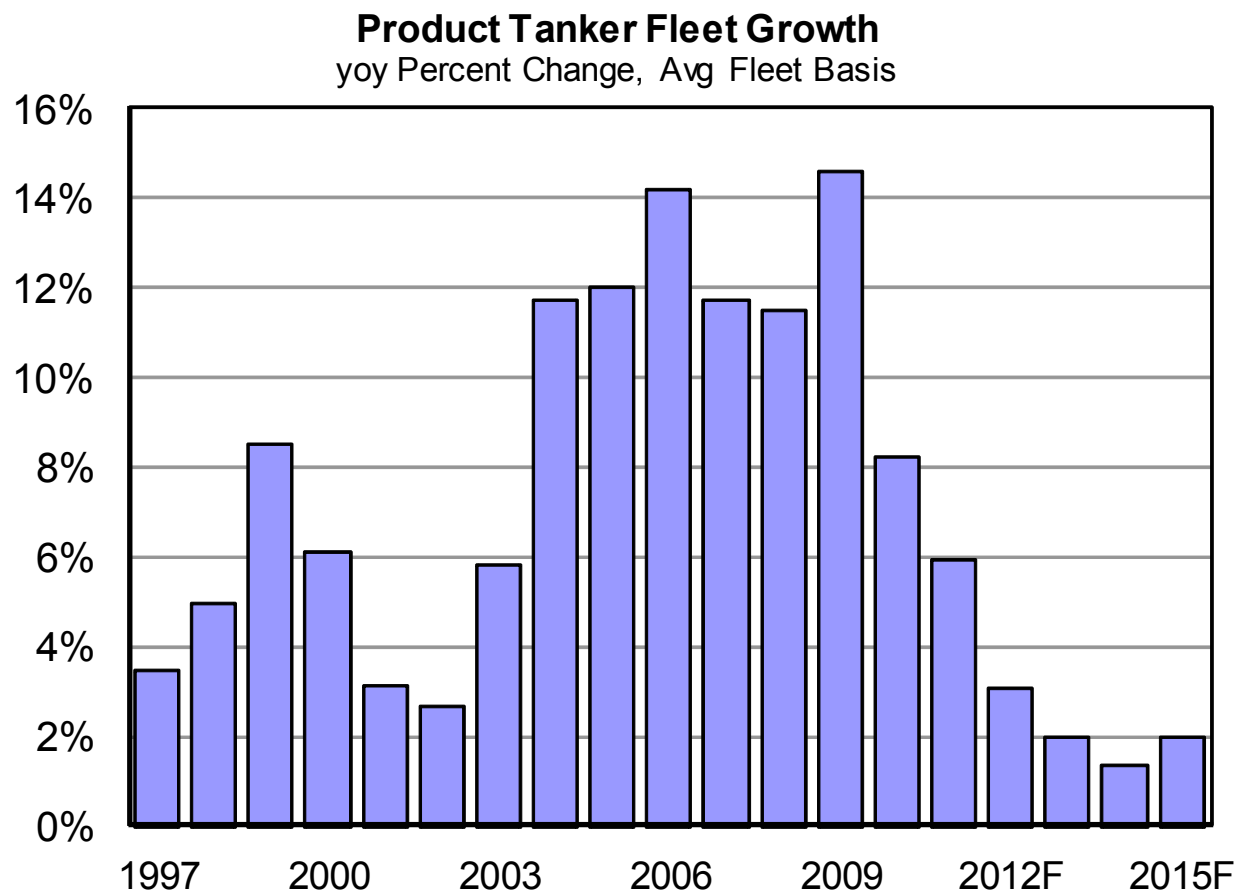
Following high 2010 deliveries, clean orderbook drops significantly

Clean Product Tanker Fleet Age Profile
As of 31 July 2011, dwt millions



Source: SSY

Ordering pause in 2008-09 set to provide sharp slowing in clean fleet growth



Source: SSY

What does the future hold? Spot earnings and ffa data (Sept 5, \$/day)

	Jan-End Aug 11	Cal 12	Chg (%)
MR	7,193	9,400*	+31%
VLCC	7,807	11,100*	+42%
Panamax (dry)	13,814	11,775	-15%
Capesize	9,575	14,425	+51%



*SSY average earnings forecast based on FFA data

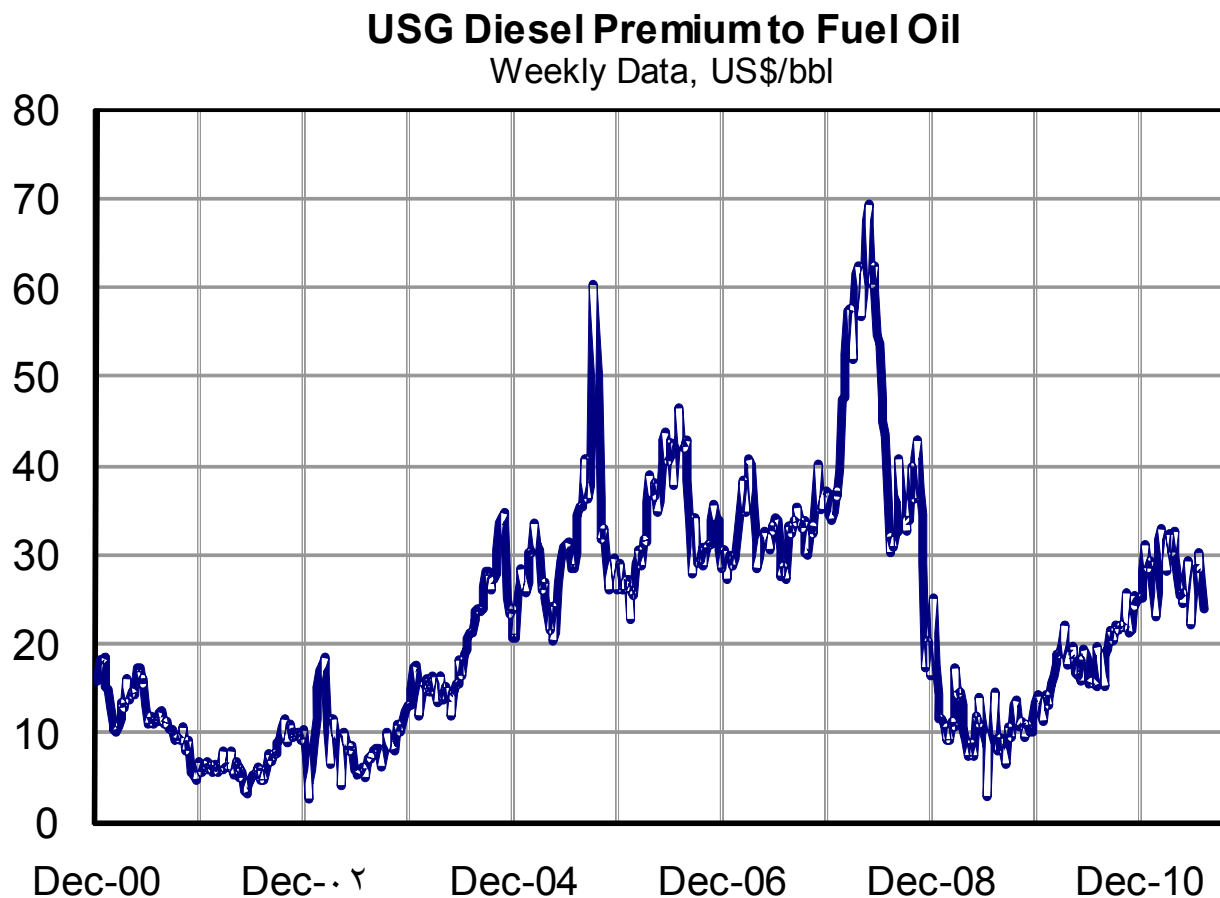
September 2011

The Bunker Impact

Fuel oil market facing several issues

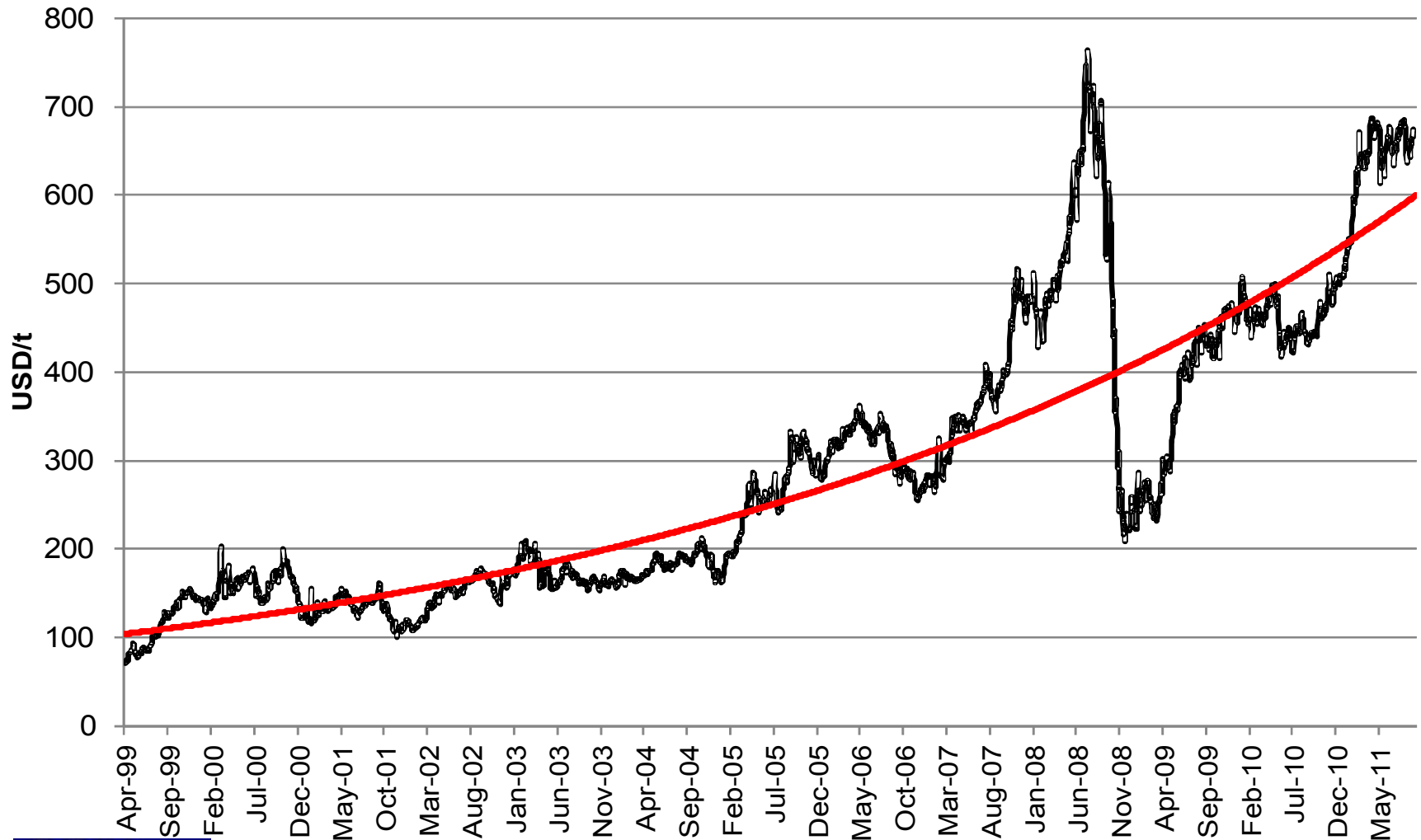
- Long term demand for fuel oil expected to ease as sulphur legislation affects both bunkers and power generation
- Russian fuel oil exports likely to fall under new “60-66” tax regime
- Iranian fuel oil exports hit by sanctions, internal power demands
- Supplies of low sulphur already tight with demand set to grow, increasing premiums

Widening spread between diesel & fuel oil has improved economics of US cokers



Source: EIA

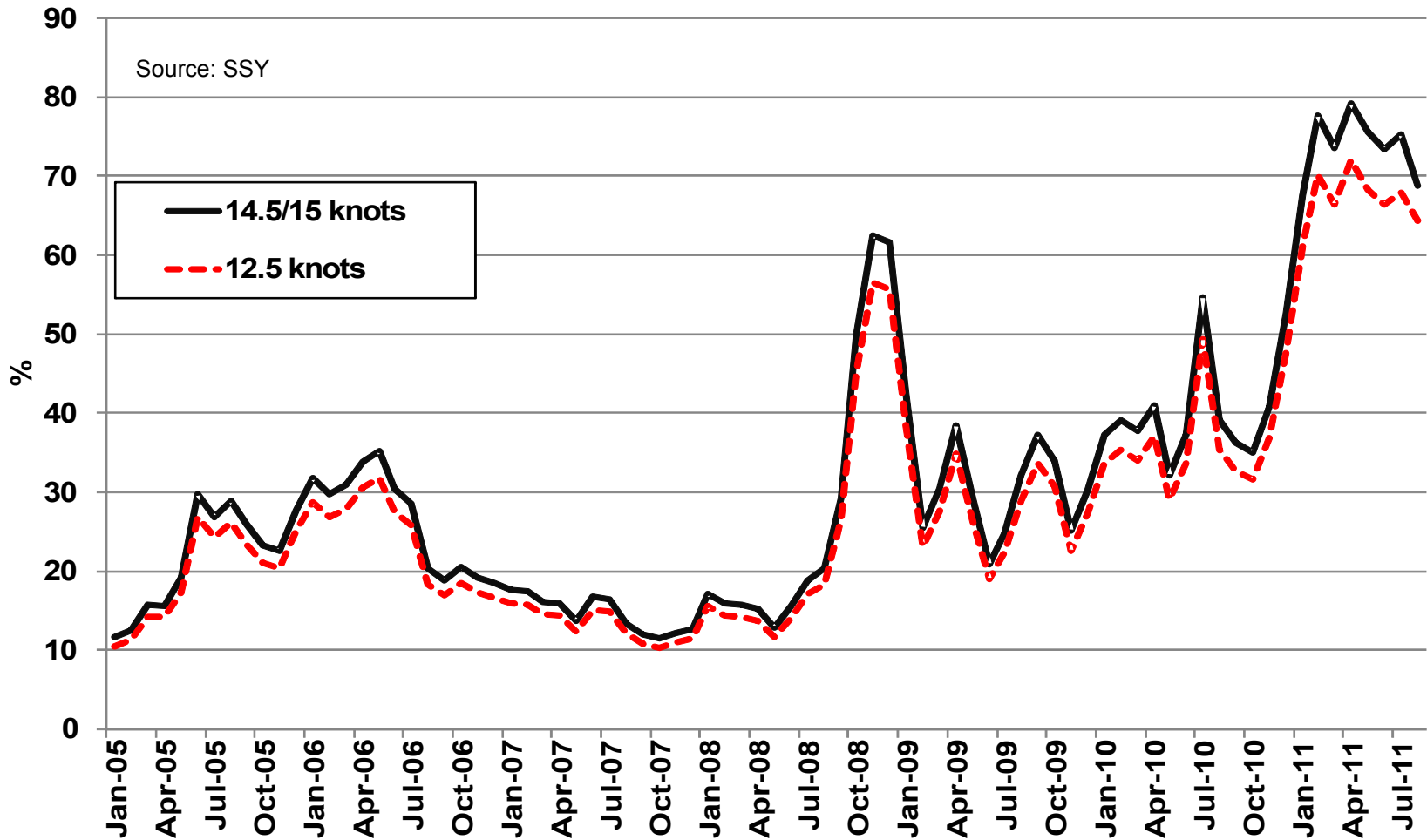
What the past shows us - Singapore 380 CST on upward trajectory



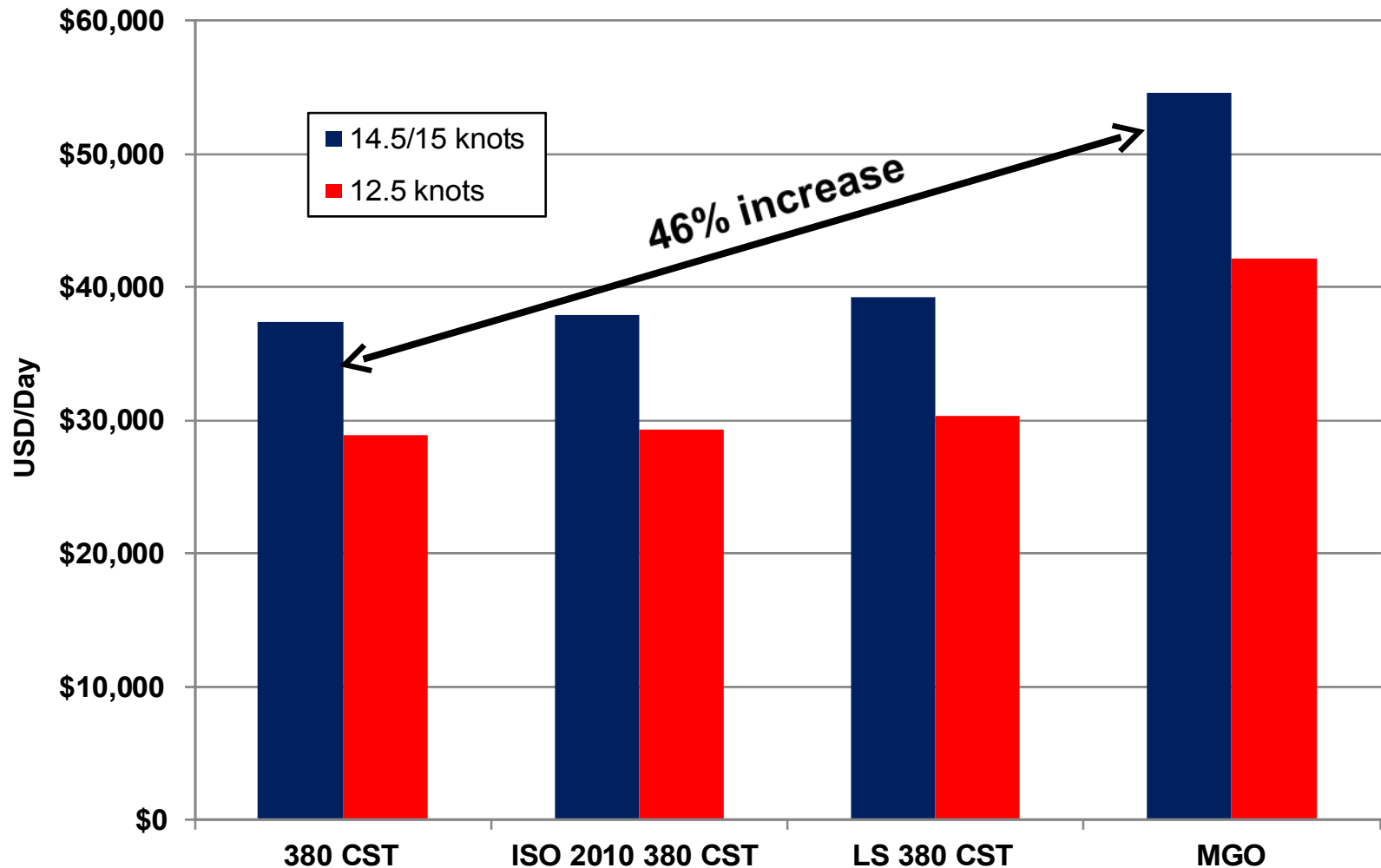
The scenario facing ship owners

- European, American operators need minimum three types of fuel
 - Main fuel (HSFO), ECA Fuel (1% max), MGO at berth
- ISO 8217 (2010) supplies – all ports? when?
- Logistical question of purchasing
 - Potential for new bunkering hubs to emerge to supply ECA fuels
- Technical problems – segregation, boiler problems
- Sourcing of 1% and distillate fuels
- All of the above in a volatile market with high prices
- Increased demand for bunker fuel
- Need for investment in scrubber technology

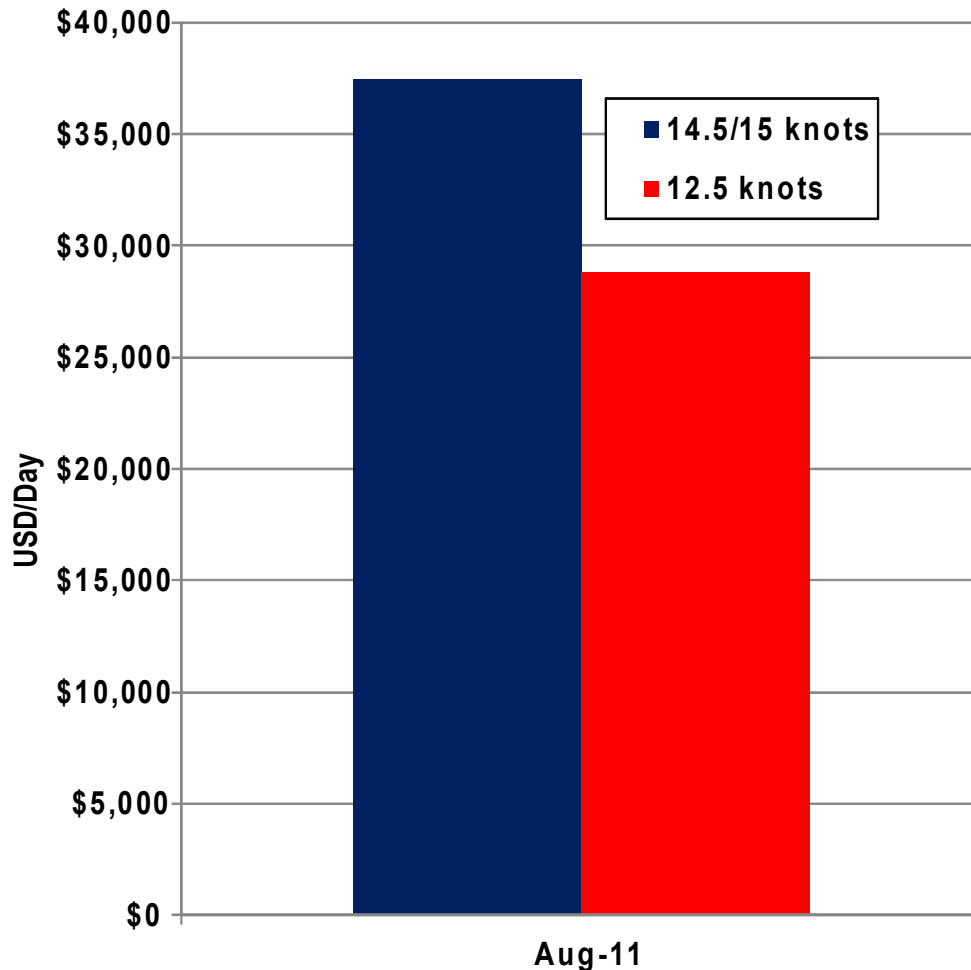
the bunker percentage of spot freight costs Capesize RV Tubarao-Beilun



Daily main fuel burn costs Aug 2011 (assumes same consumption levels)



The effect of slow steaming on bunker consumption - Tubarao-Beilun RV



Source: SSY

- Two knot reduction means roughly \$8,500/day fall in bunker cost
- 12.5 knot voyage means five annual RVs compared to six at 14.5/15 knots

Conclusions

- Both bulk and tanker markets face extended period of low earnings due to fleet growth.
- Sheer size of orderbooks requires record scrapping and end to ordering.
- While owners struggle, high commodity prices mean charterers are able to meet the cost of bunkers. Currently.
- Bunker prices only set to increase in future pointing to increased cost of shipping even with record fleet growth suppressing earnings.

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