12th Annual Capital Link New York Maritime Forum
Wednesday & Thursday
October 14 & 15, 2020
Digital Conference

New York – The Capital for Shipping

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12th Annual Capital Link New York Maritime Forum

October 14 & 15, 2020 – Digital Conference

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Why crude-tanker collapse could be long and painful

Tepid oil demand may depress tanker rates well into 2021

Greg Miller, Senior Editor Follow on Twitter

Wednesday, October 21, 2020

0 1,061 6 minutes read

It's not about how bad crude-tanker rates are, it's about how long they'll be bad (Photo: Flickr/Kees Torn)

Chinese water torture is defined as “a painful process in which cold water is slowly dripped onto the scalp, forehead or face for a prolonged period of time, allegedly making the restrained victim insane.”

Crude-tanker owners and investors may face their own version of this ancient torment. Today’s agonizingly low rates could be just the beginning.

The massive floating storage volumes that built up earlier this year are unloading. But very, very slowly. In aggregate, they’re dripping out. Meanwhile, oil demand is growing, but again, very slowly. Incremental oil demand is a trickle, not a flood.

First the party, now the hangover

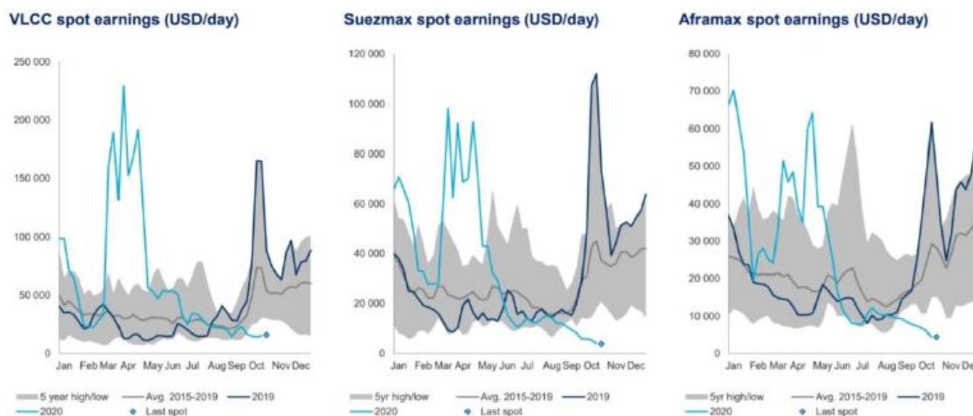
Hope of short tanker-market hangover dashed (Photo: Flickr/Jesse1dog)
Crude tankers filled up with storage cargoes in April-June after Saudi Arabia opened its spigots despite COVID-weakened demand. Tanker rates hit historic highs of over $250,000 per day but did so by pulling forward demand via storage deals and borrowing from the future.
The best hope for tanker markets was that storage would unwind quickly as global consumption rebounded. This was the so-called "short hangover" or "rip off the Band-Aid" scenario. It would depress rates in the near term as storage tankers unloaded and swiftly reentered the spot-market scrum. But it would hasten a return to normalcy.

Alas, new data provided to FreightWaves by intelligence company Kpler confirms that the Band-Aid is not being ripped off. It also implies that barring a major geopolitical event to supercharge spot rates, the hangover could be long and painful.

Rates sink to multiyear lows

Cratering crude-tanker rates are now well below both breakeven levels and where they normally are at this time of year.

According to Clarksons Platou Securities, rates for very large crude carriers (VLCCs, tankers that carry 2 million barrels of crude oil) averaged $17,000 per day on Wednesday. Rates were $100,000 per day at this time last year, propelled by tankers attacks in the Middle East and U.S. sanctions against China's COSCO. Looking beyond last year's anomaly, current VLCC rates are less than a third of their 2015-19 average.



(Chart provided by Clarksons Platou Securities AS; data source: Clarkson Research Ltd, Clarksons Platou Securities AS)

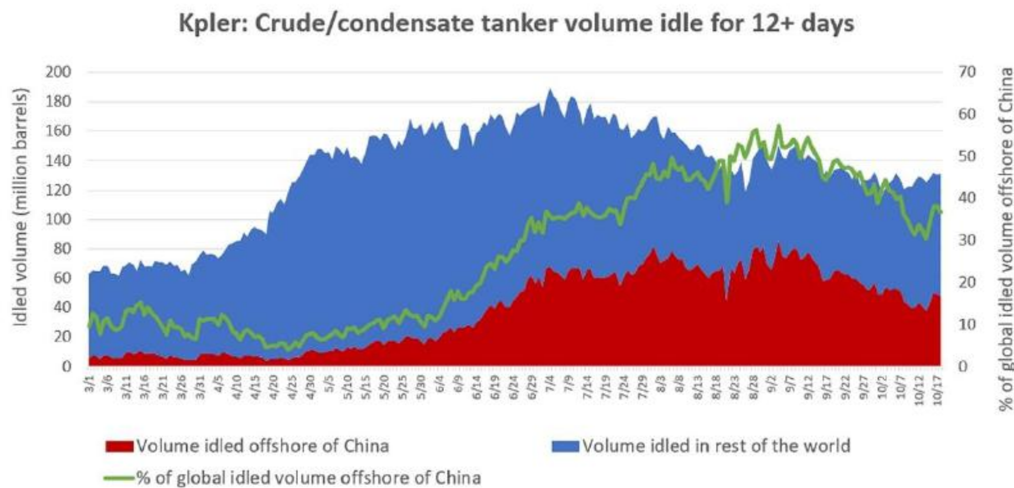
Clarksons estimates that average spot rates for Suezmaxes (tankers that carry 1 million barrels) are $4,000 per day. A year ago, they were $86,600 per day. Current Suezmax rates are about one-tenth of their 2015-19 average.

Clarksons puts spot rates for Aframaxes (tankers that carry 750,000 barrels) at $4,500 per day. A year ago, rates were $55,100 per day. Current rates are about one-sixth of their 2015-19 average.

Floating storage unwind stuck in neutral

Kpler collects data on laden crude- and condensate-tanker capacity for ships stationary for 12 or more days.

This reveals how much crude is in floating storage over time, including intentionally stored cargoes and those suffering lengthy delivery delays. Kpler also breaks out how much of this laden storage is off the shores of China, where port congestion has been particularly acute in recent months.



(Chart data source: Kpler)

The data shows that global crude floating storage peaked at 190 million barrels on July 1 and had fallen 31% (or 29.5 VLCC-equivalents) to 131 million barrels as of Sunday.

The negative signal for oil demand is that storage volumes have been hovering around the 130-million-barrel level since late August. Chinese storage has fallen. But non-Chinese storage has risen from around 60 million barrels in late August to 80 million barrels currently. Chinese floating storage

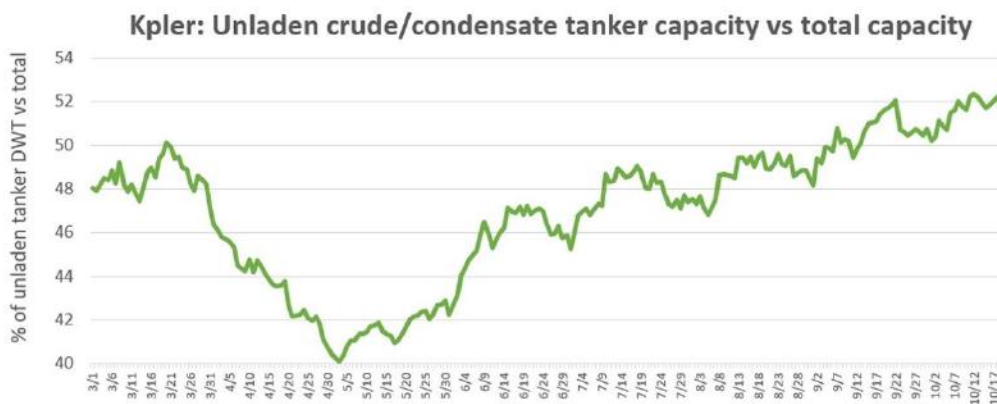
accounted for around half of global floating storage in the beginning of September. It's now down to around a third.

Kpler Global Energy Economist Reid l'Anson told FreightWaves that Kpler has seen the largest gains off the North Sea, on the production side, and on the destination side, off India, Japan, South Korea and in the Malacca Strait. Floating storage off the shores of destination nations is inherently bad for tanker transport demand (the oil has already been transported). And regardless of whether storage is offshore of production centers or consuming nations, it's a bearish on current oil demand.

Crude-tanker utilization keeps falling

Kpler also provided FreightWaves with data on the percentage of unladen (empty) crude/condensate tankers versus the total fleet, based on deadweight tonnage, regardless of size category.

The numbers are ugly and confirm why rates are so low. There are too many empty ships chasing too few cargoes. And it's getting worse.



(Chart data source: Kpler)

The laden/unladen mix was roughly evenly split at the beginning of the year, until the Saudi production decision. That caused a surge in crude-tanker rates in March and April. That rate spike — and the ships chartered for floating storage — brought the unladen percentage down to 40%-42% in May.

But then the unladen percentage began rising. The scope of unemployed ships in the spot market increased in June even as floating storage rose. As ships have been released from floating storage starting in July, the percentage has increased further.

The higher the unladen crude-tanker percentage, the more bearish the signal for crude-oil demand (particularly in light of static floating-storage levels in late August through today). On Wednesday, the unladen share hit a year-to-date high of 52.5%.

Air-travel fears chop tanker demand

Listed companies heavily exposed to crude-tanker spot rates include Euronav (NYSE: EURN), DHT (NYSE: DHT), International Seaways (NYSE: INSW), Frontline (NYSE: FRO), Nordic American Tankers (NYSE: NAT) Diamond S Shipping (NYSE: DSSI) and Teekay Tankers (NYSE: TNK).
As recent history has shown, tanker rates can go from bust to boom overnight as the result of major geopolitical events. But barring such an occurrence, rate prospects rely on oil demand, a topic highlighted by panelists at last week's virtual Capital Link New York Maritime Forum.
According to International Seaways CEO Lois Zabrocky, "In the fourth quarter, we're at 92-93 million barrels of [global oil] consumption versus 101 million barrels a year ago. COVID is still not really letting go of its grasp on a lot of the world's population. That's part of it. In addition, we've got [floating storage] destocking and OPEC is holding back [on production].

Ridgebury Tankers CEO Bob Burke (Photo: John Galayda/Marine Money)
"I think there's a structural problem in the market," maintained Bob Burke, CEO of Ridgebury Tankers.

"I don't think anyone on this [panel] has experienced an 8% decline in demand that seems semi-permanent. We are down about 8 million barrels a day and there's one answer for why this is: airlines.

"The barrel-per-day [loss] seems very highly correlated to airline travel, especially long-haul travel. And because of the psychology of the consumer, there's going to be a lot more pain in that sector," opined Burke.

Seasonal upside vs structural downside

Higher seasonal demand in the Northern Hemisphere should bump up crude-tanker rates in the coming months. However, a combination of tepid underlying consumer demand and a languid storage unwind that slowly drips out more tankers into the spot market could create dual headwinds well into next year.

Evercore ISI analyst Jon Chappell (Photo: John Galayda/Marine Money)

Jon Chappell of Evercore ISI, who was just named the top shipping analyst of 2020 by Institutional Investor, told FreightWaves: "The mismatch in supply and demand is not likely to ease anytime soon.

"Although there will be traditional seasonal patterns, we expect the upside to be severely capped this year until global inventories normalize — which may take until late 2021.

"I think the VLCCs have held in better on a relative basis owing to congestion in China ports and still-elevated floating storage," he continued. "As these issues unwind — and they are, just more slowly than many hoped — the relative performance of VLCCs and midsized asset classes should 'normalize,' meaning that Aframaxes and Suezmaxes will rise from above sub-OPEX [operating expense] levels, but VLCCs will likely remain under pressure."

On the plus side, the crude-tanker orderbook is extremely low and owners should scrap older tankers if rates stay this bad. "Fortunately, we're in a business where about 5% of the ships on average go away [via scrapping]," said Burke.

Scrapping activity has been minimal, but could increase. COVID temporarily restricted scrapping but those restrictions should ease. In addition, there has been very little scrapping of VLCCs in 2019 and 2020 because until recently, rates have been unusually strong.

As Burke put it, "If you have a pocketful of cash, you're inclined to take another bet. So, there's resistance to scrapping even when it would be the natural choice with rates so low."

Scrapping and low orderbook to the rescue?

"If you look at history, it usually takes at least six months of a depressed environment to really see vessels get recycled," added Zabrocky. "At the [rate] levels we're at, I think we should start to see more vessels getting taken out of the market."

Burke also pointed out that the very oldest VLCCs were inordinately placed into floating-storage duty and once those cargoes unload, these ships are prime scrapping candidates — which should temper the spot-rate headwind of the storage unwind. "A lot of the older ships that went into storage will probably go right to the scrapyard," he said.

But can tanker rates recover in 2021 due to reductions on the vessel-supply side? Or does it ultimately hinge on reversing the cargo-demand shortfall highlighted by the new Kpler data?

Burke himself acknowledged that "if you look to the orderbook to save you on the spot market, you're grasping for straws."

Diamond S Shipping CEO Craig Stevenson, an industry veteran, addressed the scrapping question back in March 2009. In the midst of the financial crisis, Stevenson told Connecticut Maritime Association conferencegoers: "You're not going to scrap your way to prosperity. Ever. You're not going to reduce the orderbook and turn it into a good market. It won't happen. In the history of shipping, it hasn't worked that way.

"It's demand," emphasized Stephenson. "It starts with demand." ***Click for more FreightWaves/American Shipper articles by Greg Miller***

Source: Freightwaves

Now could be a good time for US-listed companies to buy back shares, but trading liquidity could be a reason to hold back.Photo: Carlos Delgado/Creative Commons

If you cannot sell shares, you can always buy them back at a discount

Liquidity a concern for some, but Jefferies analyst makes strong case that shipowners can do buy-backs without negative fallout

20 October 2020 12:48 GMT *UPDATED 20 October 2020 12:48 GMT*
By **Joe Brady**

in **Stamford**
A mainstream shipping initial public offering has not sold in more than five years in New York. And while equity sales by already-listed shipowners are possible, they are relatively rare.

But if selling shares does not make sense in the current climate, buying them back does.

That was the consensus of various finance experts assembled for Capital Link's New York Shipping Forum, held in webinar form last week.

Or near-consensus at least. That is because even the buying back of shares has its doubters as the best corporate strategy for shipping stocks that are already lacking in scale and trading liquidity.

Thus, while Jefferies investment banker Douglas Mavrinac said company purchases of their own shares "make a lot of sense right now" and "are the right thing to do" with prices well below net asset values (NAVs), even he could not help including a caveat.

"Theoretically you buy back all the shares you need to until you get back to NAV and then you go private if you need to – but liquidity is always a question," Mavrinac said.

"And so you're left with buying back all that you can without reducing the float [of available shares] too much."

Mavrinac drew quick agreement from counterpart Loli Wu of Bank of America, who said the poor trading liquidity of many owners is a reason to think twice.

“You have to look at how much poor trading liquidity contributes to the undervaluation of a share, and do you exacerbate the situation by overdoing the buy-back? That’s why I’m a little more neutral on buy-backs,” Wu said.

Yet equity analysts are often big boosters of buy-backs and Randy Giveans — Jefferies’ top man on the research side — explained to TradeWinds following the conference why he is not deterred by the liquidity question.

“Some people point to the negative impact that share buy-backs can have on trading liquidity, but I do not think that is a valid argument, especially when shares are trading at very attractive valuations,” Giveans said, citing metrics such as price to NAV and price to earnings multiples.

As an example, Giveans cited Greek boxship owner Danaos Corp’s recent decision to more than treble the size of its stock buy-back programme to take in $31m of shares in large blocks from two holders: lender Royal Bank of Scotland and shipowner George Economou’s Sphinx Investment.

“The shares repurchased represented 17.5% of the outstanding shares, but notably do not affect the trading liquidity as the holders were not ‘natural’ holders,” Giveans said.

“They acquired the shares via debt-for-equity swaps a few years ago or do not actively trade the stock,” he added, alluding to a financial restructuring undertaken by the boxship owner.

Giveans argued that the Danaos case is far from an outlier.

“This is the case with many shipping companies with small trading liquidity,” he said.

“So if the shares repurchased are from private equity players, banks or others who are not true equity investors that actually trade the stock, there will likely be no impact to liquidity. This is why many companies try to repurchase blocks of equity from large, stagnant holders.”

There is another reality to be gleaned from trading numbers compiled by Jefferies at TradeWinds’ request.

Most shipowners trade so lightly that even if they do damage their turnover through buy-backs, the result is not a game changer.

Jefferies banker Douglas Mavrinac said company purchases of their own shares make sense now, but he raised a question over the impact on a stock's liquidity. Photo: Capital Link

For example, many large hedge funds say they generally cannot take a stake in a company unless it turns over at least $10m-worth of shares in a given day.

Only six of the 30 shipowners under Jefferies' coverage in the US met that standard for the prior month: Kirby Corp at $29.75m; Golar LNG at $28.35m, Scorpio Tankers at $15.73m, Frontline at $12.12m, Euronav at $10.62m and DHT Holdings at $10.37m.

In contrast, nine owners traded below $1m per day, including some well-known names: Tsakos Energy Navigation, Genco Shipping & Trading, Safe Bulkers, Diana Shipping and Navigator Holdings.

"And perhaps, more importantly, the average 30-day trading volume is about $5m, and the median is only $1.8m," Giveans said.

"So even if the buy-backs happen via tenders or open market purchases and the trading liquidity is reduced, does it really matter if a company's average trading volume is decreased from $2m to $1.5m? The answer is a resounding no."(Copyright)

Source: Tradewinds

Supply constraints to boost post-pandemic prospects for product tankers

Scrapping and a surfeit of orders to keep supply low, executives insist, saying low share prices represent an investment opportunity

19 Oct 2020
ANALYSIS
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Executives from Hafnia, Scorpio Tankers, Ardmore Shipping and d'Amico talk up the sector at a Capital Link forum

GURNEE: "EVEN WITH NO GROWTH IN OIL CONSUMPTION WE CAN STILL ENJOY ONGOING PRODUCT TANKER DEMAND."

PRODUCT tanker owners remain optimistic about the post-pandemic prospects, saying that demand growth for their vessels is not anchored to faltering oil demand growth.

Ardmore Shipping Corp's Anthony Gurnee joined four other upbeat executives to talk up the sector at a Capital Link forum.

Demand for product tankers would be growing by 3% a year through to 2030, "instead of four or five per cent" before the global coronavirus pandemic hit the oil markets, Mr Gurnee said.

That compared with 0.5% growth for the crude market.

"Product tanker demand and growth is not the same as oil demand growth," he said. "Product tankers demand growth has been four or five per cent, despite oil consumption growing at only 1.1%.

"Even with no growth in oil consumption we can still enjoy ongoing product tanker demand."

New export-driven refineries starting up in the Middle East and China over the next four years were also cited as buoyant factors for product tankers.

"Even with a flat increase in consumption we can have much more trade in refined products, possibly and also over longer distances," said Carlos di Mottola from d'Amico International Shipping.

Mikael Skov, from Olso-listed Hafnia, one of the largest product tanker shipowners, said third-quarter demand growth for refined products "had gone substantially faster than expected" especially compared with 2015 and 2016, the last period when floating storage was at high levels.

The positive sentiments were expanded on by Scorpio Tankers chief executive Robert Bugbee, who said these new refineries in the Middle East Gulf would export greater refined products "at the direct cost of crude shipments".

Hafnia, Scorpio Tankers, Diamond S Shipping, Ardmore and d'Amico collectively own and operate around 400 product tankers.

Most reported second-quarter record profits on the back of elevated rates thanks to floating storage and an oil price war, although the coronavirus downturn dented daily tanker rates, and share prices have dipped.

All companies are convinced that tanker scrapping will increase in 2021 as elderly vessels are removed from trading. Scrapping in the tanker sector is currently at a 19-year low.

There is also a shortfall in newbuilding orders because of technical uncertainty over which future fuels to invest in, which is said to limit supply.

Mr Skov said that ordering a ship with a dual-fuel engine added an additional $6m-$7m on the contract price of $33m for a medium range tanker.

"You're buying into something which you probably can't use for the next five years, because the infrastructure won't be there to give you the alternative fuel," he said.

"You're basically adding on a capex without being able to harvest anything. Even if people had the money [to order ships], I think that in itself is also holding back the supply."

The ratio of new product tankers on order compared to the existing trading fleet is the lowest since 1996, at 6.7%, according to figures from New York investment bank Jefferies.

Some 23% of the fleet was over 15 years of age.

Source: Lloyd's list

Boxship tonnage providers benefit from carrier bonanza

Carrier discipline on capacity management has benefited the lines and also the vessel owners they charter from as charter rates surge

16 Oct 2020

ANALYSIS

James Baker@JamesBakerCI james.baker@informa.com

Container lines were quick to return unwanted chartered in vessels to owners during the start of the pandemic. But as demand has returned and freight rates have surged, non-operating owners have seen rates double for some classes of vessel

TONNAGE PROVIDERS HAVE BENEFITED FROM THE NEW-FOUND DISCIPLINE OF CARRIERS THAT HAS SEEN BOTH FREIGHT AND CHARTER RATES RISE.

CONTAINERSHIP tonnage providers have recovered from the low charter rate environment earlier in the year and have benefited from carrier customers' increased freight rates.

Danaos chief financial officer Evangelos Chatzis said that while there was often no direct correlation between freight and charter rates, the market was now strong on the back of higher demand from carriers.

"In a market where demand is booming you should expect both to go up, but there is no necessary correlation," he told a Capital Link conference webinar. "We've seen up to 100% increases in charter rates from where they were during the pandemic.

"We expect that to soften towards the end of the fourth quarter, but what is important is that our customers, the carriers, have managed to effectively and efficiently manage capacity to address the pandemic and have managed to keep box rates at healthy levels."

The pandemic instilled a new discipline among carriers, partly by accident, as carriers reduced capacity. Thinking things would be worse than they were, the capacity cut was greater than the decline in demand, forcing up freight rates.

"You want your clients to make money so you can make money," said Global Ship Lease chairman George Youroukos. "But when liner companies make a shitload of money like they do now, this is not just an adjustment but a completely different picture to what we have been used to."

Carriers had realised that fighting for market share had only resulted in losses, he said.

"The new strategy of restraining themselves from over-ordering ships and ending up with overcapacity is giving them profits, and I think this is what we will continue to see," Mr Youroukos said. "When we have a situation where carriers are making so much money that will drive the charter market quite high."

The surge in charter rates could see carriers turn towards longer term charter periods, particularly for larger ships, according to Jerry Kalogiratos, chief executive of Capital Product Partners.

"As rates start soaring, carriers will be forced to consider longer-term charters to control the rise of rates," he said. "People want to be able to lock-in ships and have visibility. I think liner companies will be forced to lock-in for a longer period."

Mr Youroukos questioned whether carriers would need cheaper long-term charters when they were making so much money. The simple maths meant that a 5,000 teu widebeam containership could earn $20m on a 45-day round trip at current freight rates.

"Today's charter rate is about $22,000 a day for this type of vessel," he said. "Adding $5,000 to the charter rate would only be $225,000 for that round voyage."

He added that when a ship was chartered for a year, the $22,000 per day rate only amounted to $8m a year in charter costs.

"As you can see, that year's charter hire can be made in one voyage. Assuming that in a year a ship can make eight to nine round voyages, the rest is profit. We have to think about this sort of calculation when thinking about the future.

"I don't really know if carriers will continue to have the discipline to make these stellar returns, but if common sense prevails they should keep the strategy that has achieved these returns."

Source: Lloyd's List

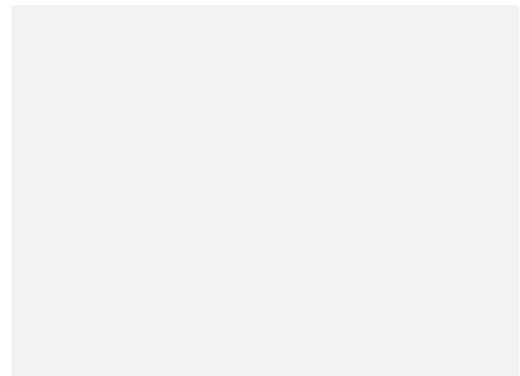
Mix of LNG ship types helps charterers as sector commoditises

Dynagas reveals it has nudged its newbuildings up to unique size of 200,000-cbm

15 October 2020 17:14 GMT *UPDATED 16 October 2020 6:58 GMT*
By **Lucy Hine**
Charterers need a mix of LNG carrier types and sizes as they try to optimise their portfolios in an increasingly commoditised market, according to Tellurian Trading UK executive vice president Tarek Souki.

Speaking at Capital Link's online New York Maritime Forum Thursday, Souki said the LNG shipping market is going to have to adapt to the shorter-term supply contracts of around six years which are making up at least two-thirds of the deals signed this year.

He said this is simply part of the commoditisation phase for the LNG but it means charterers will have to optimise every aspect of what they are doing.


Tellurian's Tarek Souki gave a charterer's eye view on LNG shipping. Photo: Tellurian

Souki said that in the market the industry has experienced this summer, that as a charterer it has been preferable to be looking at ships of smaller capacities.

"You did not want to have to fill up a ship and buy a bunch of volume that you are going to lose a bunch of money on, on the other side," he said.

He said it is necessary to have a combination of bigger more efficient ships, along with smaller, more flexible potentially cheaper vessels for one-off voyages.

"I think having the right mix of portfolio is going to be very important for someone that is going to be trading a mix of long term and short term trades," he said, adding that he would even look at a steamship if he could get the right price for a single trade for a short distance.

Thinking big

Dynagas LNG Partners chief executive Tony Lauritzen said vessel capacity is one of the most interesting aspects for the LNG fleet.

Lauritzen revealed that Dynagas upped the size of the 180,000-cbm LNG newbuildings which it contracted at Hyundai Heavy Industries in May 2019 to 200,000-cbm.

These will be the only two LNG carriers in the world fleet of this size. The only larger ships are Qatar's 210,000-cbm Q-Flex and 265,000-cbm Q-Max vessels.

Both Dynagas newbuildings, which are due for delivery in 2022, are understood to be fixed to Cheniere on mid- to long-term charterers.

Lauritzen, who admitted that the upsizing had not been announced, told TradeWinds that Dynagas saw a need in the market for larger sized ships that would give the lowest cost of transport for long-haul trades while still retaining their terminal compatibility.

He said the decision also had an environmental focus, in that the vessels will be able to ship larger volumes at slower speeds with lower emissions.

Souki described Dynagas 200,000-cbm newbuildings as "quite sexy".

Built to last

Asked about the role for tri-fuel diesel-electric (TFDE) fleet, TMS Cardiff Gas founder Christos Economou, whose company owns 11 modern 174,000-cbm, two-stroke vessels and manages four 160,000-cbm TFDE vessels, argued that there is still a role for the smaller vessels.

He pointed out that there are only around 80 of the 174,000-cbm, gas-injection vessels in a global fleet of over 600 LNG carriers.

Economou said the 160,000 cbms "have their own market", adding that the company had just fixed one for four months at a rate of around $60,000 per day.

"They are not going to disappear," he said. "These ships are built to last. They are just going to become a smaller part of the trade."

Looking at the potential future focus on methane emissions by major charterers, Economou agreed with Teekay LNG Partners president and CEO Mark Kremin that there should be more reporting to the IMO on this.

Flex LNG chief executive Oystein Kalleklev, whose company took delivery of its tenth LNG newbuilding on Wednesday, said transparency will be important as the industry moves forward as will patience.

"LNG market and its growth is a long story, with a lot of growth ahead of us," he said.(Copyright)

Source: Tradewinds

Director David Morant is playing a key role in overseeing Scorpio Bulkers' transition to the wind industry. Photo: June Essex/LISW

Scorpio Bulkers sells third vessel of week as wind push continues

Ultramax SBI Hera is latest to be dealt in owner's transition, owner confirms

15 October 2020 19:31 GMT *UPDATED 16 October 2020 12:01 GMT*
By **Joe Brady**
New York-listed Scorpio Bulkers has confirmed the sale of its third vessel this week with the disposal of the 60,200-dwt SBI Hera (built 2016).

As TradeWinds reported earlier, the sale was initially identified by sources in the dry bulk market. It was confirmed by Scorpio in a press release after the close of trading Thursday.

Scorpio said the sale price was $18.5m but did not identify the buyer, referring only to a non-affiliated third party.

The disposal furthers the Emanuele Lauro-led owner's transition into the wind-turbine installation vessels market. It is selling off its dry bulk fleet to bankroll the costly wind vessels without the need to raise equity in the near term.

As TradeWinds has reported, on Wednesday Scorpio announced the sale of two ultramaxes and its fifth ship overall in the past month.

Scorpio revealed it is offloading the 63,300-dwt sisterships SBI Phoenix and SBI Samson (both built 2017) for about $34m.

Hera's sale price likely was boosted by the bulker's Japanese build, market sources said.

This sales spree comes after Scorpio Bulkers signed a letter of intent at South Korea’s Daewoo Shipbuilding & Marine Engineering for a $265m to $290m wind-turbine installation vessel project.

Cutting-edge developments

Scorpio's dramatic transition to wind was spotlighted by Clarksons Platou Securities researcher Omar Nokta on Thursday's analyst panel at Capital Link's New York shipping forum, when moderator Hew Crooks of Ridgebury Tankers asked about cutting-edge developments that excited the stock pickers.

"That's an exciting path that they've undertaken over the next three years," Nokta said.

"They're at a unique point where they're taking their dry bulk vessels, which have been trading at a big discount to NAV [net asset value], and they're monetising them as down payments for their wind vessels."

Once the sales announced thus far are closed, Scorpio will still have a fleet of 43 bulkers. But TradeWinds has identified further units on the sales block, and disposals are expected to continue at a steady pace.

This story was updated to include Scorpio's confirmation of the sale in a statement released after the close of trading on Thursday.(Copyright)

Source: Tradewinds

Ridgebury Tankers chief executive Robert Burke said until aeroplane travel comes back, tanker rates may not come back to full strength.

Crude tanker rates not as bad as brokers say, owners argue

Owners say they are getting much better rates than the paltry sums quoted by brokers

15 October 2020 19:31 GMT *UPDATED 16 October 2020 6:58 GMT*
By **Matt Coyne**

in **Stamford**
Tanker owners swear they are getting better rates than broker reports would suggest.

With the Baltic Exchange quoting VLCC rates a little over $5,500 per day, while suezmaxes have fallen below zero and aframaxes earn a paltry $679 per day, the owners on Capital Link's online New York Maritime Forum crude tanker panel on Thursday said their actual fixtures were much better.

“[Teekay Tankers has] got a lot of vessels that end up on demurrage and delays, and demurrage rates are typically much higher than the $3,000 to $5,000 [per day] you’re mentioning for aframaex and suezmaxes," chief executive Stuart Andrade said.

"I would say definitely in the teens actually in terms of actual returns.

"It’s a voyage by voyage thing. Where that number is seven days from now, might be a little different than where it is today.”

Tsakos Energy Navigation corporate development officer Harrys Kosmatos said broker reports — which tend to depict vast oversupply in tonnage with few cargoes to go around — are simply indicative of a trend.

"Yes, the market today is going through, if you like, the soft parts of the year. We are at seasonal lows," he said.

"However, we do expect and we do believe and we do see much firmer rates than those reported. Yes, the indication that the market has softened from the highs of March and April. But owners do [get] much healthier rates."

Kosmatos said the sector's fundamentals, headlined by the smallest orderbook in more than two decades and a demand recovery as the Covid-19 pandemic eases, would eventually push rates back up.

Ridgebury Tankers chief executive Robert Burke was slightly more bearish than the rest of the group — which included Frontline interim chief executive Lars Barstad and International Seaways chief executive Lois Zabrocky, as well — arguing that the reason demand was short 8m barrels per day was due to a decline in airline travel.

He said that recovery was down to consumer psychology and when long-haul flights come back into demand.

"When people ask me why .. its the aeroplanes," Burke said.

"The barrel per barrel correlations seems very high correlated to aeroplane travel. Long haul.

"That's a big driver in our industry."(Copyright)

Source: Tradewinds

Omar Nokta of Clarksons Platou Securities is urging public owners to shed the pure-play model that banks foisted upon them to begin with.

Analyst takes wrecking ball to pure-play owner model, but will diversity help NAVs?

Clarksons Platou's Nokta says owners need to shake things up if they want to improve valuations

15 October 2020 20:17 GMT *UPDATED 16 October 2020 6:59 GMT*
By **Joe Brady**
Public shipowners ought to consider ditching their pure-play vessel ownership models if they hope to ever regain interest from mutual funds and improve their sagging valuations.

That appeal for fleet diversity came from veteran Clarksons Platou researcher Omar Nokta on an analyst panel Thursday as members brainstormed over what measures owners might take to close what are mostly massive discounts to their steel value or NAV.

The pure-play concept by and large has been pushed on shipowners by investment bankers since the early 2000s as a way to be investor-friendly, but Nokta said it depends on what investors one is talking about.

"It's much easier for hedge funds to invest in a company that is an exclusive play," Nokta said.

"But the management of these companies is riding up and down the cyles, and when you do that, you're eliminating mutual funds. You lose the ability to interact with them and attract them as large investors.

"They're not as focussed on an asset type. It's more about management teams and strategy. We've seen companies generate cash and use it to buy more of the same asset they already have. They could use the cash to diversify and ride out the cycle in a smoother fashion. There's not enough diversification."

Fellow analysts Ben Nolan of Stifel and Randy Giveans of Jefferies were not exactly buying into Nokta's solution, but for different reasons.

Nolan said many conversations with mutual funds have shown him they've checked out of shipping.

"Most have said, 'I'm not going to be at the front of the line. I have to be really dedicated to (the investment) or I'm out.' I'm afraid when they're out, they're out for good."

Giveans simply didn't buy the pure-play versus diversification dichotomy as the reason for shipping falling out of favour with investors.

"I don't know if companies trading at big discounts to NAV is because of a lack of diversification," Giveans said. "I can name several with diversified fleets that trade at massive discounts to NAV."

While some analysts and many owners say it's just a matter of companies generating sustained positive earnings to bring trading levels back to NAV and above, Nolan sounded a worrying note that it may not be that simple.

Nolan said that in some ways Crooks, as a private owner, is in an enviable position compared to public owners.

"You don't have to care what your share price is – you can invest when you should invest," Nolan said.

"Once a company gets painted into a 'should trade at a discount to NAV' box, it's really hard to break out. It's a much harder problem to fix than it is to create."(Copyright)

Source: Tradewinds

Exmar executive director Jens Ismar questioned whether or not shipping companies should be public at an online panel Wednesday.Photo: TradeWinds

Shipping companies and public markets are 'a big question mark'

Or shipping companies could be too focused on net asset value

15 October 2020 14:43 GMT *UPDATED 15 October 2020 14:43 GMT*
By **Matt Coyne**

in **Stamford**
Should shipping companies be public?

For Exmar's executive director Jens Ismar, maybe not.

"I think it's a big question mark whether you should be public as a shipping company," Ismar said on Thursday during Capital Link's online New York Maritime Forum.

"From our point of view, we're in the right segment. If you look at the energy mix going forward, LNG and LPG will be the energy that carries on the longest."

The discussion, during a session featuring LPG shipowners, continued the theme from the online event's corporate strategy panel on Wednesday.

Then, Star Bulk carriers president Hamish Norton said there was no use in being publicly traded when shipping companies are trading at such a discount to net asset value (NAV).

Nearly all shipping companies, whether carrying wet or dry cargo, are trading at a discount to their NAVs due to waning investor interest as the Covid-19 pandemic continues.

Exmar shares, trading on the Euronext exchange in Brussels, were trading at €2.10 ($2.46) on Thursday, down more than half from its 52-week high of €5.72.

BW LPG's chief executive Anders Onarheim said his Oslo-traded company would stay public.

"I think in shipping there are too many people focused on their NAV," he said.

He said companies needed to talk up the returns that investors can have.

Dorian LPG (USA) chief executive John Lycouris said achieving strong share prices has always been challenging, given the lack of earnings stability.

"We hope that this market improves and, as LPG is concerned, it's a little bit less volatile than other markets," he said.

Consistent freight market

LPG carrier freight rates have been relatively strong, even with Covid-19, and have made it through the pandemic "relatively unscathed", according to the session's moderator, Jorgen Lian of DNB Markets.

The Baltic Exchange quoted an LPG carrier on a Middle East Gulf to Japan route earning $62.79 per tonne, down from the $81 per tonne assessed 12 months ago, but still close to what was seen for stretches of 2019.

Fearnleys Securities said the gas carriers were earning $45,400 per day in its daily market report, significantly higher than bulker and tanker rates.

Ismar said, thanks to arbitrage opportunities in Asia, that there is "quite a fundamental case for a strong market".

Onarheim agreed, mostly, but conceded there might be other factors driving current rates.

"There's no question we are being perhaps helped by, you know, disruptions," he said.

"There are drydockings, clearly those are something that have given us a positive, at least some positive tailwinds from.

"Looking back, we had Covid, we had the oil price war. I have to admit, I was much more nervous earlier in the year looking ahead, thinking about what the effect would be."(Copyright)

Source: Tradewinds

Star Bulk Carriers president Hamish Norton is waiting for a return of better markets and better trading for his stock.Photo: Capital Link

What's the point in being public? Not much at today's weak share prices

Largest listed bulker owner raises a concern that has been on many minds this year

14 October 2020 16:28 GMT *UPDATED 15 October 2020 8:52 GMT*
By **Joe Brady**
There is really not much value in being publicly listed under current market conditions, according to the president of a major public company.

The statement by Star Bulk's Hamish Norton comes with caveats, but it was a candid admission of a point that has been on the minds of many in the capital markets throughout 2020.

Norton's comments came on one of the opening panels of Capital Link's New York Maritime Forum, which is being presented as a webinar this week.

"At some point if a public company can't trade at a premium to [net asset value or NAV], there's not that much point in being public. If you can't use your equity to grow in an attractive way, the public markets are not of much use," Norton said.

Star Bulk has a market capitalisation of about $670m — also dry bulk's largest — and has been one of the industry's leading consolidators, acquiring several fleets.

But as Norton recounted on Wednesday, it did so with the help of its shares, which were accepted by the sellers at NAV at the time.

"Without the equity value being greater than NAV, it's harder to consolidate. The sellers have accepted our shares offered at NAV, and those deals can be attractive for both sides. But even those are quite a bit more difficult to do than if our shares were trading at a premium."

Poor trading levels

Dry bulk shares on average are trading at about 66% of NAV on average, according to US investment bank Jefferies. Star Bulk's shares are trading close to that value in most analyst estimates.

However, dry bulk is not alone. While containerships have used a recent rates rally to ratchet up to 81% of NAV on average — leading mainstream shipping — crude tankers are at 74% and product tankers at just 57%, according to Jefferies analyst Randy Giveans.

The poor trading levels come as many believe investor interest in shipping is at its lowest since the rapid expansion in US-listed public companies between 2005 and 2008, when bullish freight markets peaked ahead of the world financial crisis.

But there is a caveat to Norton's observation — current freight markets are temporary amid the Covid-19 fallout, and there will come a time when cash flows return and with them NAV premiums for listed owners.

"We're waiting for that cycle that peaked in 2008 and then reached a trough in 2016 — well, at least I hope that 2016 was the trough — we're waiting for that to come back. I really hope it comes back," Norton said.

"If not for Covid-19, 2020 might have been that year."(Copyright)

Source: Tradewinds

Some of the dry bulk shipowners during a panel at Capital Link's online New York Maritime forum. Clockwise from top left, moderator Nick Ristic, dry bulk analyst with Braemar ACM Shipping; Safe Bulkers president Loukas Barmparis; Grindrod chief executive Martyn Wade and Golden Ocean chief executive Ulrik Uhrenfeldt Andersen.Photo: Capital Link

Burden of green shipping 'always down' to shipowners

Grindrod chief executive Martyn Wade wryfully suggests banning all vessels

14 October 2020 17:23 GMT *UPDATED 15 October 2020 9:38 GMT*
By **Michael Juliano**
Maritime must lower carbon emissions, but that onus needs to be better shared throughout the industry, according to bulker owners.

Shipping certainly embraces this greener movement, but the owners are the ones who are expected to fund it, Grindrod chief executive Martyn Wade said.

"We've really got the clean up the industry, but it's always down to the shipowner, isn't it?" he said as a dry bulk shipping panellist at Capital Link's online New York Maritime forum on Wednesday.

"We're the ones who have to change but we never get paid for it."

The International Maritime Organization on 1 January lowered the limit the sulphur content of ships' fuel to 1% from 3.5%, forcing owners to either fit exhaust gas scrubbers to their ships or buy more expensive low-sulphur fuel oil.

Grindrod — which owns 16 handysize bulkers, eight supramaxes and charters in eight supramaxes — opted for the more costly compliant bunkers for its fleet, which includes four tankers.

Wade said the shipyards could contribute to IMO's mandates to lower greenhouse emissions by 40% by 2030 and 70% by 2050 by making more efficient vessels.

"Yards are supposed to produce ships so we can have cheaper and cheaper freight, but it's not going to happen," he said.

'Ban all ships'

Clearly frustrated, Wade then suggested a very radical idea.

"I tell you what. Why don't you just ban all ships?" he said.

"No more newbuildings after 2022 with existing engines and ban all ships after 20 years."

He also backed the idea of using LNG, ammonia and hydrogen as alternative fuels but pointed out that some traders put shipping costs over saving the planet.

"All the so-called charterers out there — all the ones that will be on the front page of TradeWinds — as soon as there's some green initiative, we're all signed up," he said.

"It's the same people that take the dirtiest, oldest ship with the cheapest freight rate. We know that."

Safe Bulkers president Loukas Barmparis agreed with Wade, saying owners are historically "the normal victims" when it comes carrying out and paying for the changes needed to implement more environmentally friendly ships.

"We install ballast water treatment, scrubbers and then compliant fuel, etc, etc, and then continue with improving efficiency of vessels," he said.

"All this leads to specific expenditure."

Safe Bulkers opted to fit scrubbers, which cost at least $2m per ship, on half of its fleet last year.

"Having said that, we know today that we see vessels going to a slower speed in the future, which will be beneficial," Barmparis said.

"We'll see some interruptions in terms of technologies, so I think the market will benefit from that."(Copyright)

Source: Tradewinds

Scorpio Tankers president Robert Bugbee said product tankers can still be viable, even if we've passed peak oil demand.Photo: Marine Money

Oil demand peak not worrying product tanker owners

Short term or long term, a panel of product tanker owners are confident the sector can be strong

14 October 2020 17:30 GMT *UPDATED 15 October 2020 9:04 GMT*
By **Matt Coyne**

in **Stamford**
Even if oil demand crumbles, product tanker owners believe the sector is viable.

Speaking at Capital Link's New York Maritime Forum — held online due to the pandemic — owners said there was a long tail for product tankers, even if the world has passed peak oil, as BP suggested last month.

"I don't think we're going to suddenly get away from the combustion engine or using plastics," said Scorpio Tankers president Robert Bugbee, whose company owns the largest product tanker fleet.

"I don't think this is really going to affect the product tanker market so much over ... the next five, six, seven, eight, nine, 10 years. I think you could really get premium earnings and cash flow bonanzas."

He said the supply side was going to be difficult to overbuild due to uncertainty on future emissions regulations, which should keep the global fleet small.

Further, fewer refineries could mean longer, "pretty exotic" trips, boosting tonne mile demand.

Ardmore Shipping chief executive Anthony Gurnee said that over the past 10 years product tankers were seeing 4% or 5% demand growth, despite oil demand growth of only 1% or 2%.

He discussed an International Energy Agency report that said peak oil demand would not come before 2040 and that demand was forecasted to rise at roughly the same pace as pre-pandemic levels.

"The key difference is attributable to refinery development and oil trade complexity," he said. "We think that both of these are going to continue or even increase."

"In reality, product tanker demand to 2030 might be slightly lower than before, but maybe not by much. Maybe it'll be 3% instead of 4% or 5%."

Short-term rebound

On a short-term basis, demand has come back, Hafnia chief executive Mikael Skov said.

"We had actually expected a slower rebound in demand, to be fair," he said.

"I think what we have seen already now in Q3 when you look at demand rebound around the world, it has gone substantially faster than what we would have expected and a lot faster than if you look back in 2015-16, when we had a similar inventory build."

He said brokers were quoting rates for the third quarter better than in years past, even with the demand destruction brought on by Covid-19.

"If your assumption is that regulators and governments around the world have some experience in how to handle it, the assumption for us is that it won't get back to normal very quickly, but getting to the levels we've seen and the rapid rebound is positive," Skov said.(Copyright)

Source: Tradewinds

North P&I Club's Mike Salthouse made strong statements on the profound effect sanctions are having on shipping.Photo: TradeWinds

US official blasted over 'maximum pressure' sanctions effort

The extent of the blacklist is creating significant challenges for shipping, panellists said

14 October 2020 21:17 GMT *UPDATED 15 October 2020 11:31 GMT*
By **Matt Coyne**

in **Stamford**
Panellists laid into a State Department official at Capital Link's online forum over the US sanctions programme that has Iran and Venezuela — and almost anyone doing business with them — in its sights.

North P&I Club executive and International Group of P&I Clubs director Mike Salthouse said on Wednesday that the extent of the "maximum pressure" campaign makes it impossible to build a credible compliance programme.

"You have created an environment where overcompliance is the norm and the mere suggestion that someone is breaking sanctions means that nobody will touch that particular ship, operator, company or whatever else," Salthouse said, addressing US Department of State senior sanctions policy coordinator Joshua Mater.

Salthouse said obeying US sanctions reimposed on Iran two years ago could expose an insurer to criminal charges in the UK, while disobeying them could get it blacklisted.

"The US potentially puts us out of business" in such a case, he said.

The Trump administration reimposed sanctions on Iran in 2018, three years after it agreed to a deal that saw sanctions lifted if Tehran agreed to limit its nuclear programme.

Since then, the US has been aggressive in sanctioning Iranian companies, including shipping companies. It has also taken aim at Venezuela and its oil industry, most recently blacklisting or threatening to blacklist dozens of Greek companies for doing business in the country.

Mater said the US 33apsize33es how complex sanctions compliance has become, but promised that blacklisting was always a last resort.

"We don't just move to sanctions imposition as step one," he said.

"There is generally pretty extensive engagement that takes place to stem the tide of whatever illicit activity may be going on with regard to certain shipments that are on the water. We will continue that trend."

Mater recommended that insurers, flag states and classification societies share data to help shipowners steer clear of issues and said the US government would continue to talk to the industry.

That was a non-starter for Salthouse, who said North had cancelled nine fleets, representing 140 vessels and $7.5m in premiums annually, over the past decade because of sanctions concerns.

"Of those fleets that we cancel, we don't really know what they're up to. We are uncomfortable with their activity," he said.

"Sharing information is inappropriate in those circumstances. If we go around saying, 'We think that [those] vessels are breaking sanctions', that may be the kiss of death of a shipowner that is not breaking sanctions.

"These really are, I think if I can be so bold, slightly unrealistic expectations from the US, that information based on suspicion can be thrown around in the public domain and parties can act on it."

Columbia Shipmanagement chief executive Mark O'Neil said his company has a "huge department" devoted to sanctions compliance, but the guidance is not always 100% clear, given how quickly everything is moving.

Shipowners, he said, were having difficulty with the extraterritoriality of US sanctions.

"As ever, shipping has to roll with the punches that are thrown to it," he said.

"The speed within which these sanctions [are implemented], the effect of the sanctions and the bite of the sanctions is becoming increasingly difficult to deal with."(Copyright)

Source: Tradewinds

Paulo Almeida, portfolio manager at Tufton Oceanic, says shipping has outperformed others during the pandemic.Photo: Andy Pierce

Covid-19's impact on shipping not as crippling as other industries, financiers say

Small orderbook has helped sector prove resilience in the face of pandemic, and could draw investor notice

14 October 2020 18:49 GMT *UPDATED 15 October 2020 11:30 GMT*

By **Joe Brady**

in **Stamford**

The common perception of Covid-19's effects on shipping markets is understandably largely a negative one: depressed demand in a year that was expected to produce outsized returns with help from the IMO 2020 sulphur-cap regulations.

But there is another view that emerged from an alternative finance panel on Wednesday afternoon at the Capital Link New York Maritime Forum, held online, that's a bit different: how shipping has outperformed as a sector.

"Covid shows that in certain types of economic crises, shipping can perform," said Paulo Almeida, portfolio manager for London-based Tufton Oceanic.

"Certainly a diverse shipping portfolio such as ours has performed better than any aircraft-leasing portfolio, airports and most commercial real estate. It may help put shipping back on the investor map."

Tufton controls 90 vessels across four different investment funds.

Veteran shipping financier and investor Andrian Dacy of JP Morgan Asset Management agreed with his London-based neighbour.

"Shipping has done remarkably well during Covid. Had there been a bigger orderbook coming into this market, we would have seen a much different picture," Dacy said.

Though it was not solely related to the pandemic, tanker owners enjoyed record rates in the year's first half, driven largely by an oil price war between Saudi Arabia and Russia. Rates have fallen badly since. Analysts say a two-year buoyant market was compressed into two months.

Dry bulk has shown signs of life in the second half, led by 35apsize rates, while containerships have been on the rise in recent weeks.

All told, it's not the total wipeout seen in sectors such as the cruise industry and airlines, but not a climate that has drawn investors back into public equities either.

Wednesday's panel made the case that there is still plenty of capital left for shipping investment — just not the attractive traditional ship financing to which owners were once accustomed.

"Alternative financing is becoming mainstream finance," Fearnley Securities director Nicolas Duran said.

JP Morgan Asset Management's Andy Dacy says shipping's small orderbook has been a blessing during the pandemic. Photo: Marine Money

Even blue-chip public owners that retain access to traditional lenders don't necessarily have carte blanche across the whole fleet, Duran noted.

"Even with many tier-one owners, there are parts of their fleets that are not financeable by traditional lenders. They want to finance dual-fuel newbuildings, not a single 10-year-old asset."

He invoked the name of Star Bulk Carriers, the world's largest dry bulk owner.

"This is why Star Bulk has been very active in the leasing space, and we've done financings for them," Duran said. "They see the need to match capital sources with specific assets."

Alternative financiers also may represent an option when it comes to the growing emphasis on environmental, social and governance (ESG) initiatives, which have been almost uniformly adopted by the big lenders, panelists said.

"It's more about whether you can get access to financing at Libor plus 250 basis points with a 60% advance ratio," said Richard Jansen, managing director at Braemar Naves.

"If you don't have funds, this is not the end-all. There's still plenty of capital available."

Duran agreed: "It's primarily the large institutions that have a focus on ESG, whether that's for altruistic reasons or they're listed and have to maintain accountability with shareholders. You have the luxury of being a bit more flexible if you're a small alternative lender than if you're Nordea, for example."(Copyright)

Source: Tradewinds