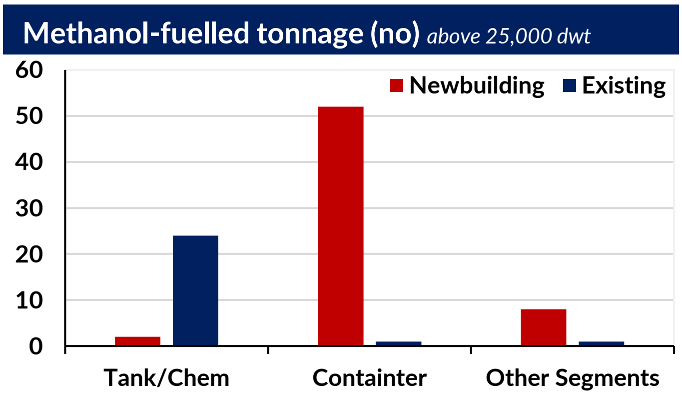
Green Light for Methanol?

Weekly Tanker Market Report

The past couple of years have marked an increase in orders of methanol-fueled vessels, particularly in the container segment. AP Moller Maersk is a clear pioneer and a front runner, having ordered 19 container vessels capable of running on methanol, whilst over 30 vessels have been ordered by other prominent container lines. Although the focus has been on box ships, the tanker industry is certainly not a newcomer. There are 24 MR sized tankers (including chemicals) currently in operation, with most involved both in methanol and clean products trade, whilst another 2 are on order. These vessels are almost entirely under control of companies with significant methanol trading capabilities. There is also emerging interest in methanol from dry bulk segment. Cargill partnered with Mitsui & Co to order two methanol-fueled Kamsarmax bulkers, whilst Vale has issued a request recently for proposals from shipping companies for contracts of affreightment for a new generation of methanol-fueled Guaibamax very large ore carriers. Furthermore, there is also a growing trend across a number of shipping segments to order vessels that are methanol-ready.

Methanol as a fuel has several advantages over other alternative fuels. Regulations, rules and requirements for using methanol as a bunker fuel are already available, making it possible for owners to make newbuilding plans. Another key advantage of methanol engines is that it has relatively simple design requirements and hence lower CAPEX compared to LNG and other more "exotic" alternative fuels. Furthermore, as methanol is liquid at ambient temperatures, it does not require refrigeration and expensive materials for tanks and pipes.

Methanol is one of the top chemical commodities traded around the world and hence there is already a significant number of methanol terminals around the world which could potentially be used for bunkering. When demand grows, it also will be more straightforward to augment the existing facilities, instead of building brand new infrastructure systems.



Nonetheless, the commodity has its disadvantages as well. It needs additional space on board due to lower calorific value. According to DNV, it requires fuel tanks approximately 2.5 times the size of HFO for the same energy content and 1.3 times larger than LNG. Availability of green methanol and hence the cost of sustainably produced methanol is another major concern. Brown methanol produced from coal and grey methanol produced from gas are both in abundant supply, but they do not offer significant reduction in well-to-wake carbon dioxide emissions. In contrast, blue methanol, produced by using blue hydrogen together with carbon capture and storage (CCS), offers a sizable reduction in emissions; whilst green and e-methanol are carbon neutral, as they are produced from biomaterial or green hydrogen, captured CO_2 and renewable energy.

The availability of blue and green methanol is scarce (estimated at less than 0.5 mln t/y in 2022), whilst production costs are high. Perhaps with this in mind, AP Moller Maersk has been actively securing green methanol supply from across the world and making investments in methanol producing companies. Yet, there is strong potential for production growth, considering rising government subsidies and private sector interest. According to a count of existing and planned projects by Methanol institute, renewable methanol production could increase to over 8 mln t/y by 2027.

Overall, despite its disadvantages and current limitations, methanol has strong potential as a future fuel for shipping as it offers shipowners a viable and practical path to achieving environmental targets, especially in comparison to ammonia and hydrogen. Yet, for large-scale uptake, the industry needs to see increases in availability of sustainable methanol. One can only hope that this will also come with major gains in cost efficiency.

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Crude Oil

Middle East

Owners have endured a difficult week in the AG VLCC segment as the market was effectively closed, especially for the first part of the week with the Lunar celebrations getting under way. We have begun to see some small signs of recovery by weeks end as activity resumed especially for 2nd decade stems. In today's market we assess AG/China to be 270,000mt x ws 48 and AG/USG to be 280,000mt x ws 35.5.

On the Suezmax front, there are still ships keen on heading West so rates from the AG sit around 140,000mt x ws 67.5. The list has thinned out on the front end in the AG for Owners willing to give East options, which will boost Owner's aspirations. Even though we have seen less done yesterday (the ship needed to head East) Owners will likely be targeting around 130,000mt x ws 135.

As the shorter week draws to a close in the East, the trend on rates is starting to follow the wider market. At the start of the week, the list was tight on the front-end causing Charterers some trouble to take cover. However, as the week has kicked on, the list has been marginally replenished providing more options to Charterers. In addition, LR2s remain in the mix which has dampened the sentiment. TD8 is evidence of this as we close the week at 80 x ws 236.

West Africa

A fairly uninspiring week for VLCC's here as activity dwindled and rates came under pressure as Eastern ballasters were looking for a home with the AG market in dormant mode. It will be hard to turn this market around with Suezmax under pressure and USG rates in free-fall. Today we are expecting a WAF/China to fetch in the region of 260,000mt x ws 50.

The market in West Africa has softened over the course of this week to 130,000mt x ws 120 with a tad more being done today. Ships willing to head East remain on the list so the premium stands at about 5 ws points for a voyage in that direction.

Mediterranean

Despite delays in the Turkish straits, there isn't a huge deal of enquiry keeping rates soft. Charterers will be looking to break 130,000mt x ws 200 for a TD6 run. Tonnage that cannot load CPC remains in the Med, and there isn't as much resistance to giving East options. Rates stand at approximately $5.6m for a run into the East. The Mediterranean Aframax market looked in reasonable fine fettle this week as weather disruption caused Owners to have faith. However, a poor volume of early month Libya cargos and very few Ceyhan stems being worked led to confidence draining. A market quote collected a decent number of offers and what was a ws 260 market X-Med soon became a ws 230 Ceyhan market, with more drops expected. CPC loaders did not suffer as much, with a limited number of willing players. Rates hovered around ws 230 with even some small increases on the cards. A flat next week seems to be on the cards for now.

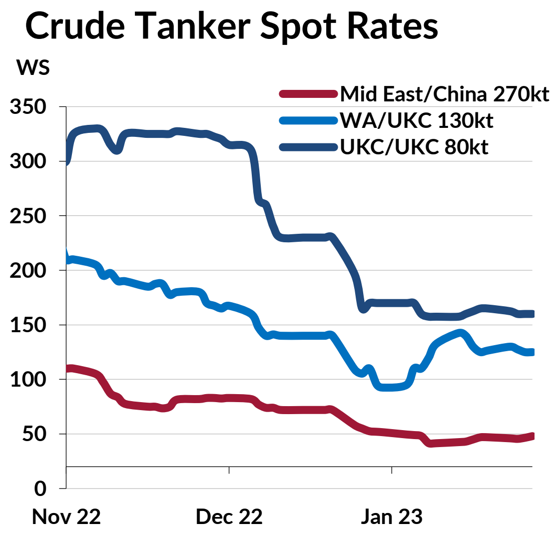
US Gulf/Latin America

VLCC rates are taking a hammering here as Charterers move ahead and take tonnage off March dates which is making life difficult for tonnage currently in the Atlantic and who are still looking for February loadings. The lack of activity in the AG this week and the small volume of WAF fixing is adding further pressure as East ballasters add to what is an overcrowded tonnage list.

The USG Aframax sector has had a topsy-turvy week with rates subsiding after initially starting to recover at the start of the week. Activity has noticeably dwindled and is facing downward pressure for larger size segments.

North Sea

The North started the week in good stead with numerous cargos for Owners to grab. However, as the week progressed, the cargo enquiry slowly subsided. Despite a relatively tight tonnage list due to Owners opting to ballast away from the region, Charterers managed to keep rates flat with the week closing in similar fashion to how it began at around 80,000mt x ws 160 levels.



*All rates displayed in graphs in terms of WS100 at the time

Clean Products

East

Strong levels of off market fixing on the LR2s as the week draws to a close. TC1 has seen a correction with 75 x ws 110 on subs multiple times, this level of off market fixing was to be expected given the oversupply of tonnage we've had over the past 2 weeks. This drive should be the catalyst for the LR2s to have a change in their sentiment.

LR1s have been busy the past few days with Indian export enquiry being the driver here. There are a number of westbound stems still to cover and with the list holding a number of older units, Charterers with age restrictions could find rates being tested as Owners try to get back to the $3m mark on West runs. We are slowly starting to see Nap stems entering the market and expect next week to see further enquiry. For now, 55 x ws 130 on subs, but given the levels of activities this week and potential enquiry next week and upturn could be on the horizon.

A very sorry looking MR market to finish the week with ws 185 on subs for SAFR – taking earnings down to $17-18k/day. The position list didn’t warrant such a drop, but once done it will be difficult to gain back the lost ground. As such, outstanding cargoes will be in no rush this side of the weekend to take a vessel for their respective EAFR stems and those with cargoes off similar dates will likely hold off until Monday. Charterers are having to consider if West options on their stems a totally required given that very few Owners are willing to head West at present.

TC12 is due a big test and inevitable correction towards ws 150 levels as all runs now stare down the barrel of sub $20k/day earnings.

Mediterranean

All in all, a positive week for Handies in the Mediterranean, as we see X-Med rates firm up around 10 points for Monday. We began the week with X-Med at the 30 x ws 195 mark, but with good enquiry helping to tighten up the list, we now see 30 x ws 205 repeated a handful of times. Black Sea levels are in need of a fresh test, with non-Russian expected to track at around +50 points on X-Med and Russian loads at a high premium. At the time of writing a few cargoes remain outstanding, so expect Owners to remain positive.

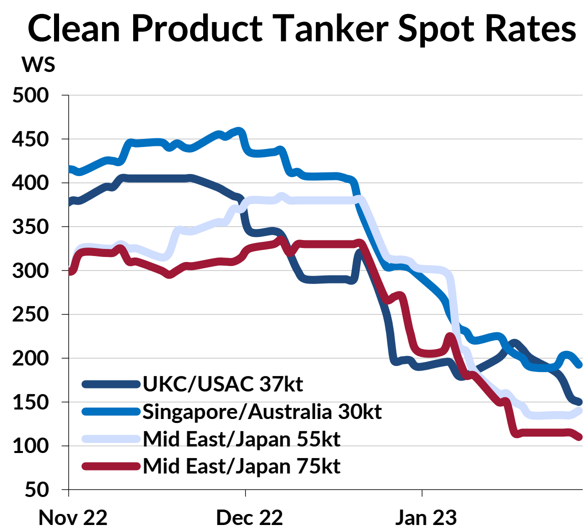
Finally to the MRs in the Med, where we have seen rates come under pressure throughout the week. On Monday rates were trading at the 37 x ws 195 mark for a Med/TA run, but with an armada of ballasters heading over from the States and TC2 under pressure, rates have now slipped to the 37 x ws 175 mark. WAF is in need of a fresh test but +10-15 points on TA is likely here. At the time of writing there isn’t a great deal left outstanding and with TC2 on subs in the ws 150s, expect further pressure here in the Med.

UK Continent

Once again Owners find themselves in a very busy waiting room looking for employment opportunities. Despite good levels of enquiry, the restocking of tonnage has just crippled this market.

Pressure has been on Owners' shoulders all week and that is shown by rates falling almost with every fixture. A brief respite was found midweek, as we settled at 37 x ws 155 for TA. Yet, it wasn't long till this was a rate of distant memory as we see this number now on subs for Brazil. Fresh test required for TA but believe we should be sitting around the 37 x ws 140 mark now for a vanilla move. Russian business saw a bit of a rush at the start of the week but with the deadline right around the corner now, expect limited additional tonnage to be clipped away for that route.

It's been a positive week for Handy Owners up in the North. Fresh Monday tonnage list looked a lot slender compared to recent weeks. With the prompt tonnage cleared, partnered with continuing enquiry, X-UKC firmed to 30 x ws 160 and 30 x ws 150 for UKC/Med. Limited fixing has been happening ex Russia now as the deadline now looms, with levels closing at 30 x 600-625. MR market remains oversupplied, which may see some Owners looking at 30kt clips in order to keep their ships moving heading into next week. Potential.



*All rates displayed in graphs in terms of WS100 at the time

Dirty Products

Handy

Conditions in the Continent this week have proved rather slow and terribly frustrating for Owners where for a few they find themselves still marketing the very same units they were on Monday morning. Such has been the slow pace of activity this week that the lists have lengthened with Charterers sensing imminent testing to be done. The Med however has looked rather more active and stable once some additional correction was seen. Furthermore, we finally cross over into the correct years WS schedule being used which now correlates across the handy sector. What is adding further pressure on Handies though across the board is the amount of MR's now willing to jump on part cargo opportunities.

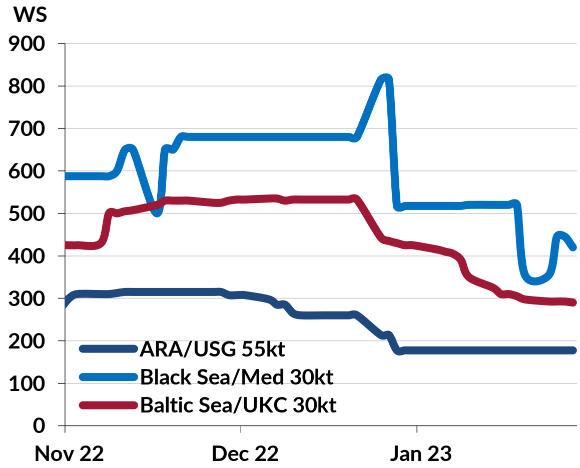
MR

Excess capacity in the Med has raised a few eyebrows where a notable decline in rates has been seen this week. Part cargo opportunity has proved a rather fortuitous lifeline in absence of full stem opportunities and given the additional supply coming back into the market (with the impacts of the products price cap still to be established) we are in an uncertain period with a lot still to be learnt. Furthermore, due to the extra capacity in the Med, values in the Continent are being placed in the spotlight where ballast tonnage becomes workable from a TCE perspective.

Panamax

Not for the first time we find ourselves saying this, but this market again shows its liquidity problems in terms of activity and availability. The units on the lists over here being post Panamax have struggled for employment, and in essence this has also deterred Charterers from making plans to Charter a conventional Panamax where no forward availability is reflecting. Ballast tonnage is still showing too much of a premium, (unless you are stuck for options), so for now we simply have to suffer a slowdown period.

Dirty Product Tanker Spot Rates



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jan 26th	Jan 19th	Last Month*	FFA Q1
TD3C	VLCC	AG-China	**+1**	48	47	53	50
TD20	Suezmax	WAF-UKC	**-1**	124	125	94	107
TD7	Aframax	N.Sea-UKC	**-1**	161	162	170	164

Dirty Tanker Spot Market Developments - $/day tce (a)

			wk on wk change	Jan 26th	Jan 19th	Last Month*	FFA Q1
TD3C	VLCC	AG-China	**-500**	19,250	19,750	27,250	23,250
TD20	Suezmax	WAF-UKC	**-2000**	54,250	56,250	40,750	42,250
TD7	Aframax	N.Sea-UKC	**-2500**	61,750	64,250	84,250	65,500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jan 26th	Jan 19th	Last Month*	FFA Q1
TC1	LR2	AG-Japan	**-17**	111	128	246	
TC2	MR - west	UKC-USAC	**-54**	151	205	199	186
TC5	LR1	AG-Japan	**-18**	131	149	303	184
TC7	MR - east	Singapore-EC Aus	**-3**	196	199	298	224

Clean Tanker Spot Market Developments - $/day tce (a)

			wk on wk change	Jan 26th	Jan 19th	Last Month*	FFA Q1
TC1	LR2	AG-Japan	**-8500**	16,750	25,250	75,250	
TC2	MR - west	UKC-USAC	**-13500**	12,750	26,250	28,000	21,000
TC5	LR1	AG-Japan	**-6250**	16,250	22,500	69,250	31,750
TC7	MR - east	Singapore-EC Aus	**-1500**	18,500	20,000	42,250	24,250

(a) based on round voyage economics at 'market' speed, non eco, non scrubber basis

Bunker Price - Rotterdam VLSFO	**+34**	613	579	527
Bunker Price - Fujairah VLSFO	**+38**	689	651	580
Bunker Price - Singapore VLSFO	**+34**	691	657	590
Bunker Price - Rotterdam LSMGO	**+33**	920	887	830

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