

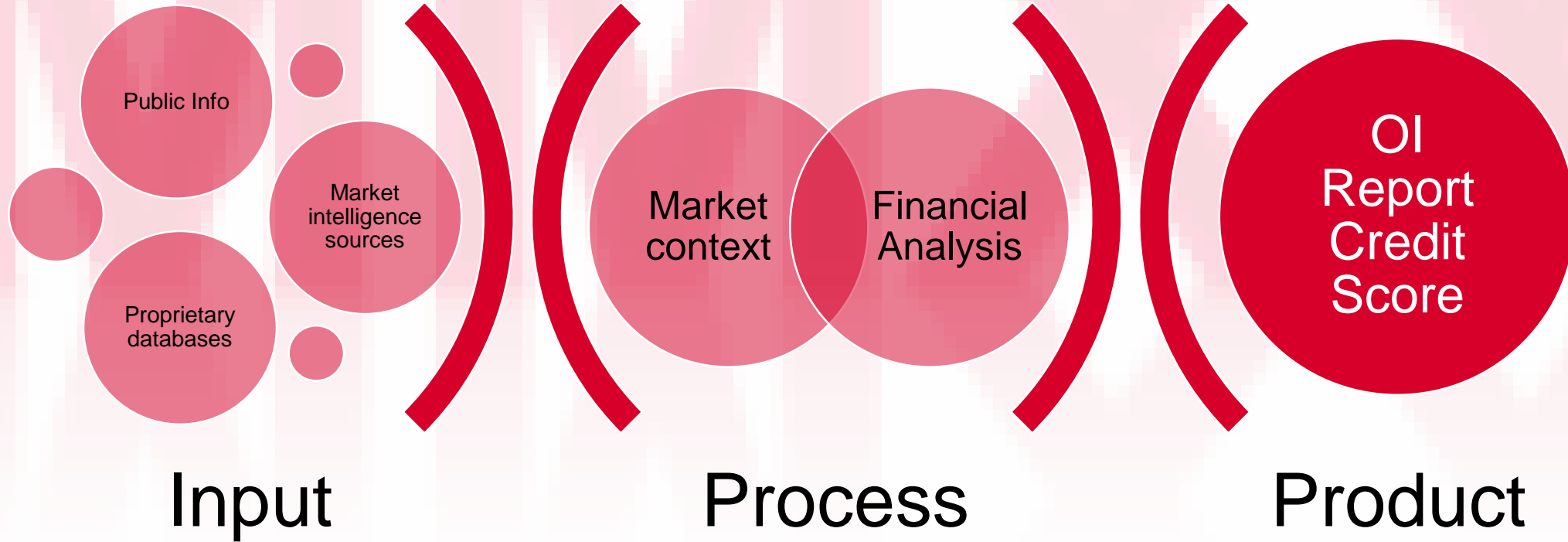
Jason Silber
Global Head
Platts Ocean Intelligence

May 2018

MMXX: Risky Business!



The Credit Report Process



When thinking about creditworthiness

Financial

- Fuel Price
- Expenses
- Debt
- Cashflow
- Credit lines
- Insurance
- Demurrage
- Bureaucracy

Commercial

- Supply/demand
- Freight rates
- Detention
- Fuel shifts
- Trade shifts
- Sales/marketing

Operational

- Compliance
- Availability
- Quality
- Quantity
- Compatibility
- Performance
- Crew
- Technology

Geopolitical

- Country risk
- Trade wars
- Sanctions
- Territorial spats
- Hot wars
- Regulation

Some numbers...

- Ships handle around 90% of world trade.
- 54,000 vessels over 1,000 dwt.
- 300 million MT of bunkers mostly -- HSFO burned annually.
- Over 2000 bunker calls a day – around 800,000 a year.

Some more numbers

3,800 scrubbers IMO expected to be installed on Jan 1, 2020.

380 scrubbers either fitted or ordered so far.

96 million barrels of oil demand daily.

5.5 million barrels of bunkers burned daily.

3.5 million barrels of high sulfur bunkers burned daily.

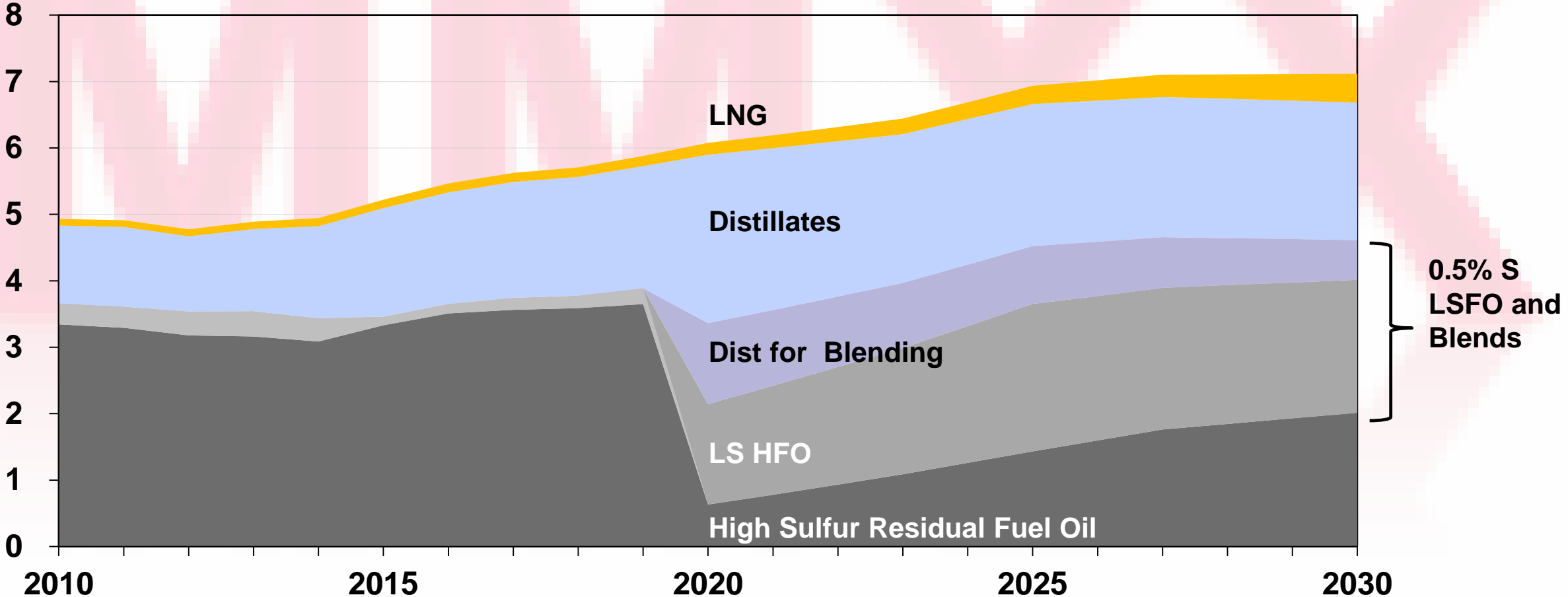
3 million barrels will need to be replaced by low sulfur fuel.

Fuel Price: Houston from 2013 to 2018



Fuel Price: What's coming

Global Bunker Demand, MMB/D



➤ Assumes global shift implemented in 2020 with minimal cheating/ lags

The Spike

S&P Global:

The marine distillate spread over HSFO could spike from \$150-\$200/MT to \$450/MT.

If the HSFO to MDO price differential widens to \$450...

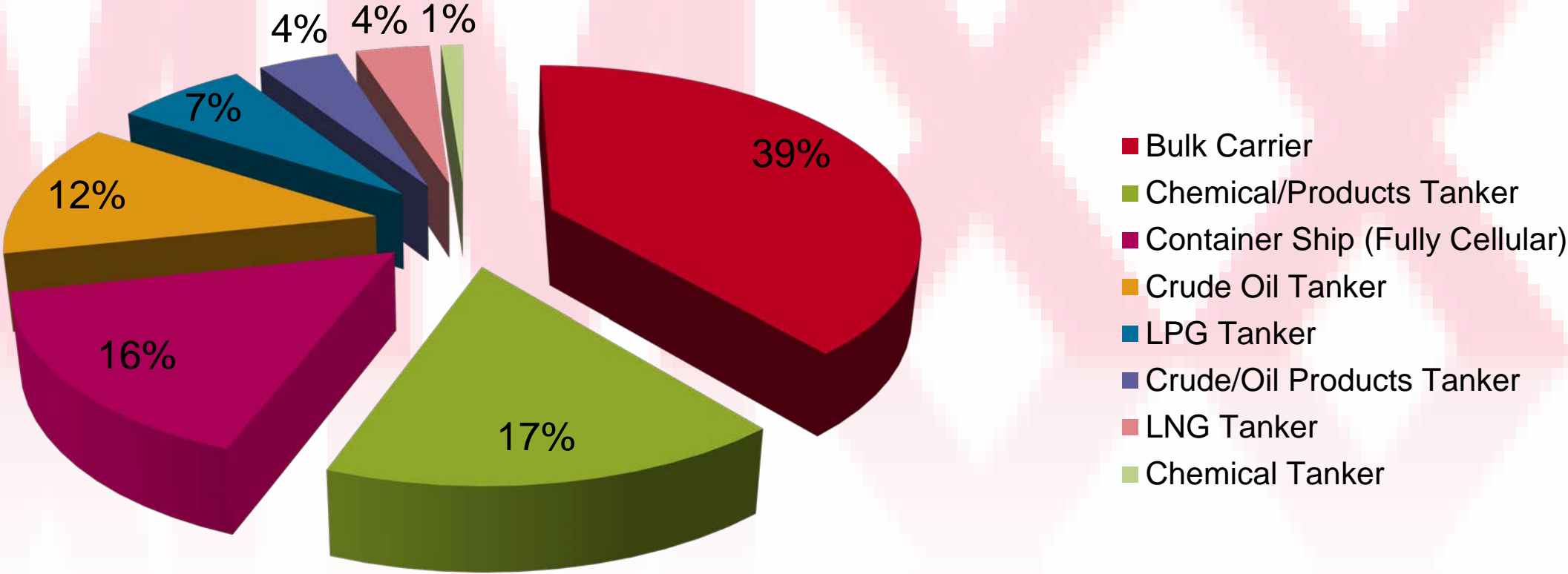
3 million barrels of HSFO need to be replaced =
447,000 MT /per day
x \$450/MT
= \$201 million additional per day, or
\$73 billion extra in fuel costs annually in 2020.

\$73 billion/54,000 ships
= \$1.35 million per ship or \$3,703 per day

Examples

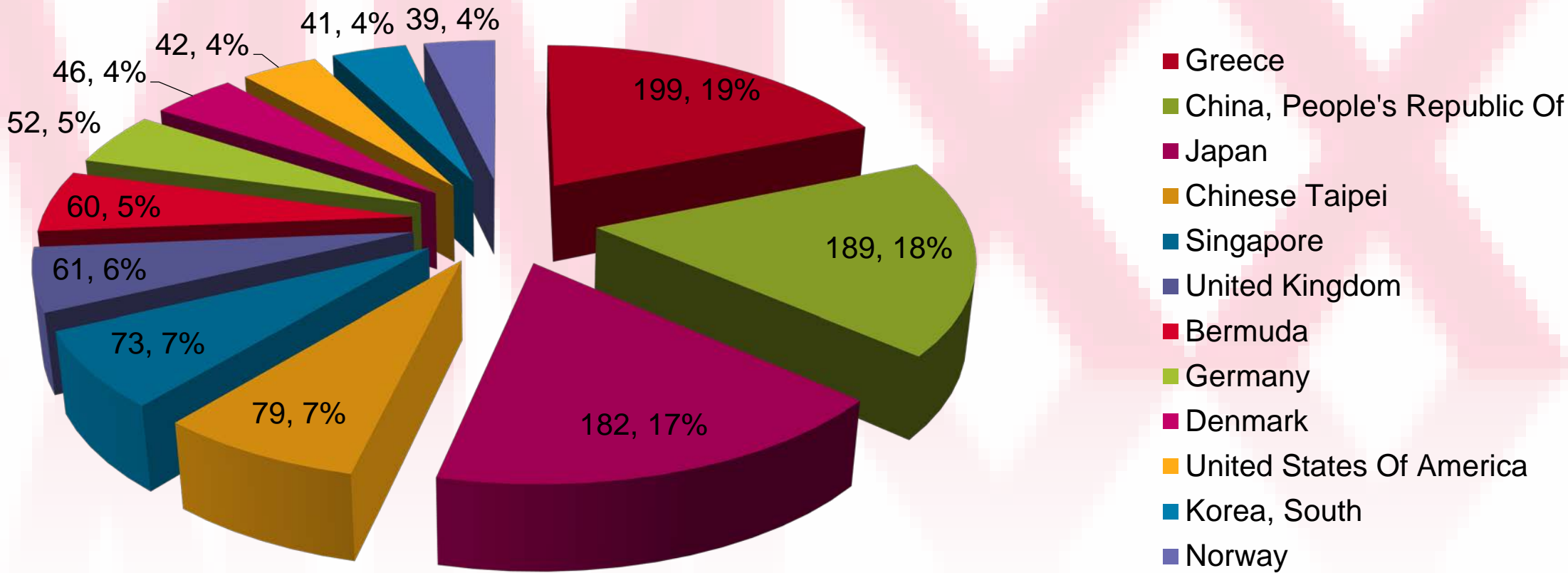
- A container operator with 80 vessels.
- A bunker company sells 500,000 MT annually.

Major category ships built since January 2017



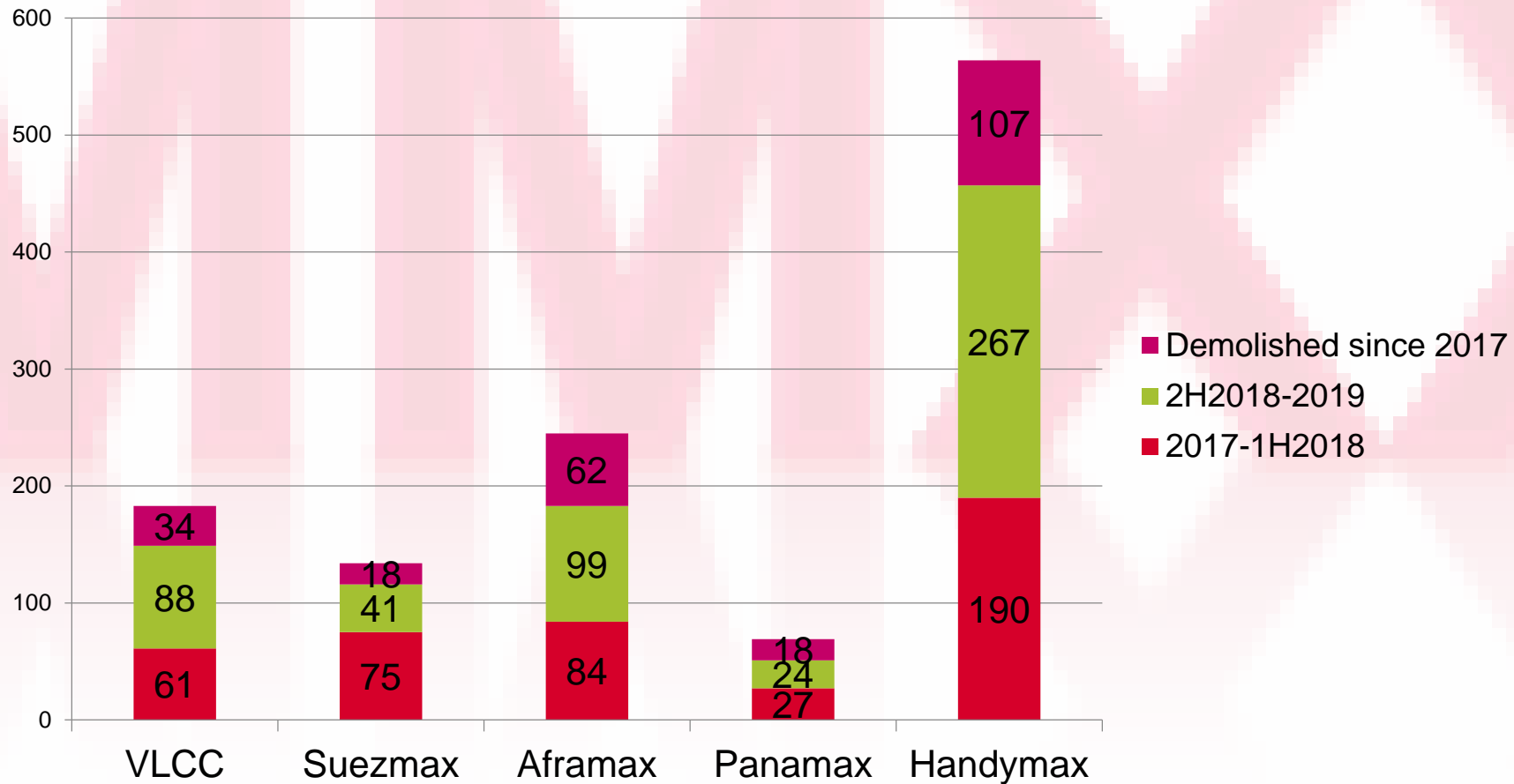
*Source: IHS

Who's ordering?



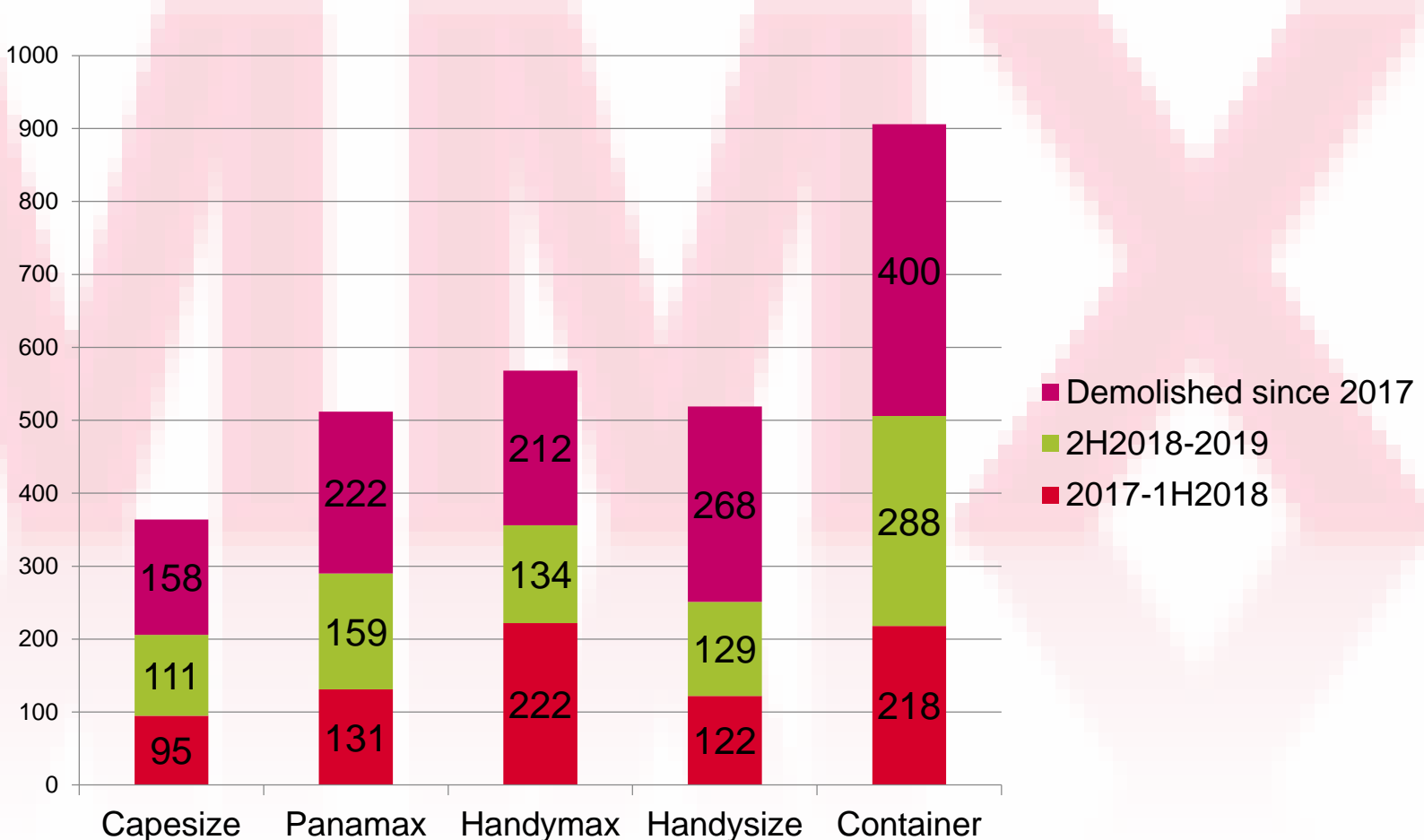
*Source: IHS

Tankers delivered and demolished since January 2017



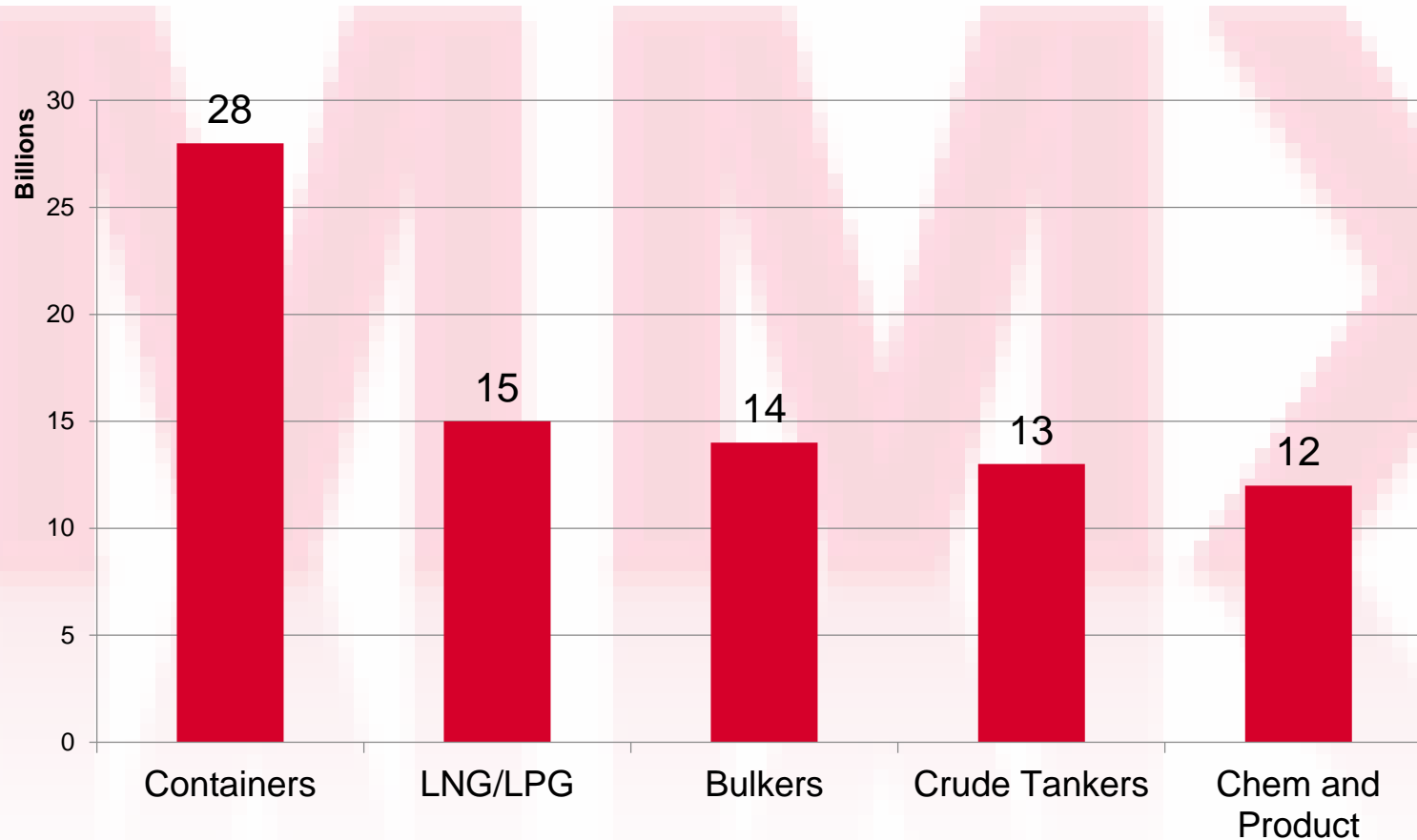
*Source Calrksons

Bulkers and Container ships delivered since 2017



*Source Clarksons

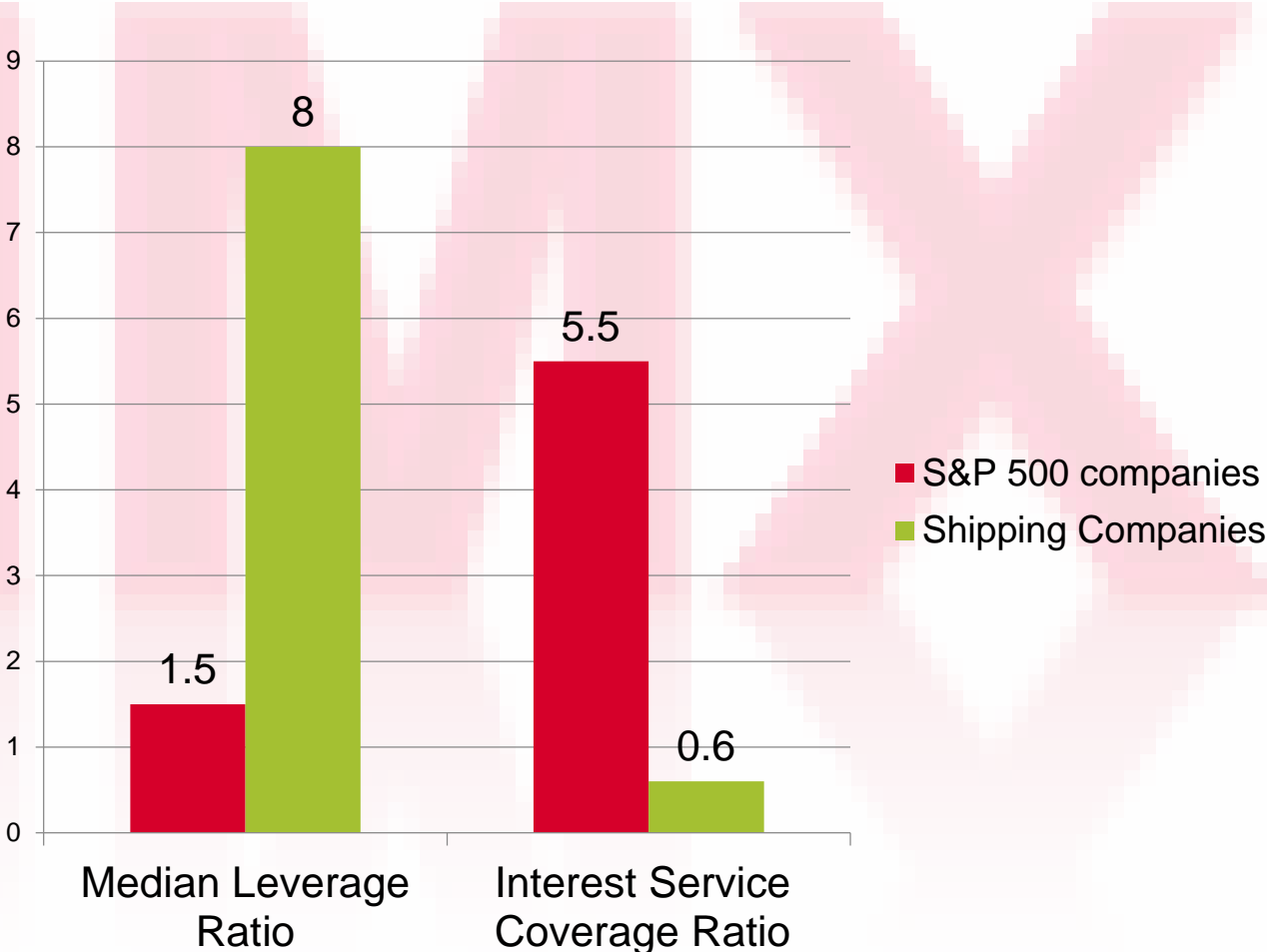
\$\$\$ estimate paid for five types of vessels arrived since Jan 2017



US\$ 82 billion in debt
half @ 5% for 7 years
/1400 ships
= US\$ 414,571 per ship/month
= US \$13,800/day

Source S&P

Debt: Shipping vs S&P 500



Source S&P Research

How will bunker suppliers cope? They'll...

Get choosier, take margin over volume.

Trim lines, and/or move away from 30 day terms.

Use their own revolving credit line.

Diversify their business

Keep costs down

Lay people off

Close offices

What will customers do? They'll...

- ...Ask suppliers for extended terms
- ...Dispute fuel quality.
- ...Make some unsavory blends.
- ...merge, be bought out -- or close.
- ...Get larger.

Push the costs onto the end user?

- Container vessels: Possible.
- Tankers: Maybe.
- Bulkers: Unlikely.

Scrubbers for the 80-vessel container line

- bunker consumption: 2 million MT/year
- x \$450/MT
- = \$900 million

If \$450 spike...

\$1.8 billion year....However if they....

Purchase 80 scrubbers @ \$3 million a piece = \$240 million

+ 2 million MT of HSFO x \$100/MT = \$200 million

= \$440 million annually

Do scrubbers have a future?

- **Trafigura** just ordered 32 ships with scrubbers
- Five year deals with fuel suppliers
- **2020 Bulkers** is building eight new bulkers with scrubbers
- Torm hedging bets, with part of its fleet using scrubbers

The running tally...

- \$73 billion in extra fuel costs in 2020 - \$6 billion/month
- \$82 billion in debt since 2017 with more before and to come - \$600 million/month...

And

\$75 billion in water ballast equipment.

How can ship operators we look at cope in 2020?

- Focus on profit rather than market share
- Operate fuel efficient vessels/scrubbers maybe?
- Be very familiar with the fuel you're loading
- Make sure voyages are as short as possible
- Spend less time in ports/slow steaming
- Hire good and communicative crews
- Keep tabs on spares and supplies
- Shipowners and charterers: do due diligence!
- And try not to buy new ships!

Unknowable Knowables...

- Sanctions
- Trade War with China
- Territorial disputes
- Interest Rates
- Shifting preferences

Jason Silber
Global Head
Platts Ocean Intelligence

May 2018

THANK YOU!

