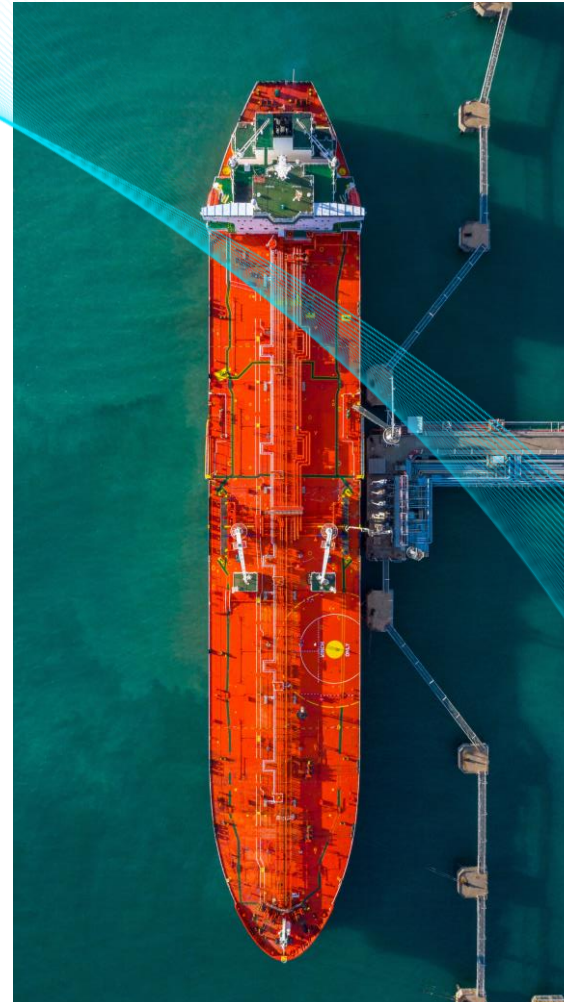




Tanker Fundamentals

Feature: HSFO vs VLSFO Spreads Narrow

30 May 2024



HSFO vs VLSFO Spreads Narrow



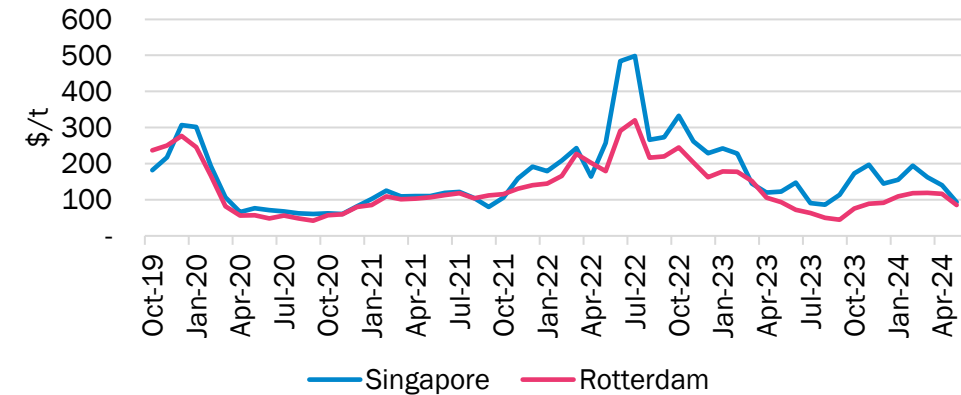
Increased demand for HSFO is supporting prices, impacting premiums available for scrubber fitted vessels

The spreads between high-sulphur (HSFO) and very-low sulphur (VLSFO) marine fuels have narrowed further this month with VLSFO in Rotterdam at its lowest premium to HSFO since November at \$69.5/t in late May, while for Singapore they have dropped to a nine month low of \$58.5/t, according to data from Bunker-Ex. This compares to an average \$115.5/t and \$163/t in Jan-April respectively, and peaks of \$389/t and \$577/t in July 2022. Prices for HSFO relative to VLSFO have been supported by increased demand for the cheaper fuel as more vessels divert via the COGH to avoid the Red Sea, boosting tonne-miles, and more vessels are being delivered with scrubbers. Meanwhile, global supply has been constrained in recent years by i) the EU/G7 ban on Russian fuel oil (with exports also recently impacted by unplanned refinery outages), ii) the loss of Russian crude and VGO in European refinery slates which has affected output of high sulphur residual products in the region and iii) OPEC+ cuts (which are reducing sour crude availability and thus residual fuel output).

Data from Singapore's Marine and Port Authority shows HSFO sales in the world's main bunkering hub rose 32% y-o-y in Jan-April to average 1.62Mt/month. Of more significance, HSFO sales accounted for 38% of all bunker sales in Singapore in April, the highest since 4Q19, which was prior to the implementation by the International Maritime Organisation of a 0.5% sulphur limit at the start of 2020 when most vessels either switched to burning low-sulphur fuel or utilising scrubbers to comply. Similarly, data from the Port of Rotterdam, show HSFO sales accounting for 38% of bunker sales (excluding biofuels) in 1Q24, with HSFO sales exceeding VLSFO for the first time since the new IMO regulations were introduced.

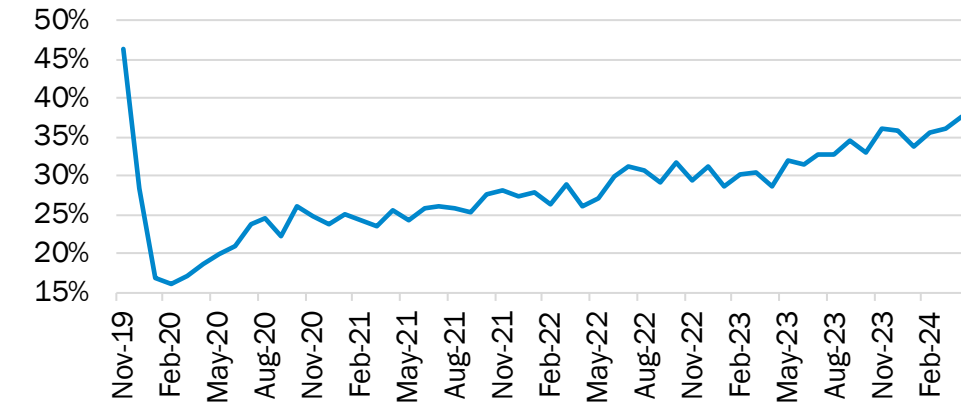
The narrowing of the spread is reducing the earnings differential owners of scrubber fitted vessels are able to achieve compared to non-scrubber fitted ships. For example, the differential for a VLCC on the benchmark TD3C route has fallen to around \$5,500/day in 2Q to date, down from \$8,400/day in 1Q24 and compares to a high of \$18K/day in 3Q22. Support to HSFO prices is likely to be sustained medium-term amid the sanctions against Russian supplies, the expected continuation of the attacks in the Red Sea and the delivery of more vessels with scrubbers fitted, which could keep scrubber differentials narrower. Looking longer-term, the orderbook is shifting away from scrubbers as interest in alternative fuels picks up. Of the confirmed VLCC orderbook, 34% are so far reported to be scrubber fitted, compared to 75% of the existing 2020+ built fleet, but 32% of the orderbook is reported to be methanol fuelled or ammonia ready.

Premium of VLSFO vs HSFO



Source: Bunker-Ex

HSFO Share of Bunker Sales at Singapore



Source: Singapore MPA

Asia Pacific & Middle East

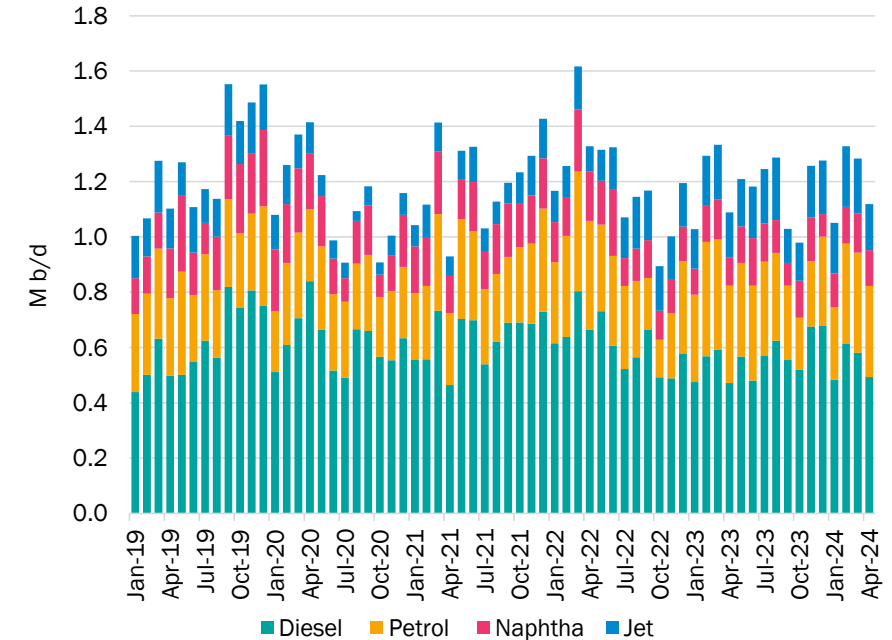


- India's crude imports rose by 350K b/d m-o-m and 340K b/d y-o-y in April to 5.24M b/d, a 2-year high, according to data from the Petroleum Planning & Analysis Cell (PPAC). Meanwhile, CPP exports were down by 160K b/d m-o-m at 1.12M b/d, led by a 90K b/d drop in diesel shipments.
- China's crude imports from Russia fell by 290K b/d m-o-m to 2.26M b/d in April, according to China Customs. Volumes from the MEG were down by 60K b/d m-o-m to 5.14M b/d, while arrivals from West Africa edged down by 20K b/d m-o-m to 960K b/d. Shipments from LatAm/Caribs were down by 60K b/d m-o-m at 1.18M b/d. Overall, crude imports dropped by 670K b/d m-o-m to 10.93M b/d, a 3-month low.
- China's clean exports fell by 440K b/d m-o-m to 710K b/d in April having reached a 13-month high the month prior, according to China Customs data. Shipments of diesel fell by 150K b/d m-o-m to 190K b/d, while gasoline exports were down by 200K b/d m-o-m to 110K b/d, the lowest since July 2015.
- Singapore's naphtha imports rose by 140K b/d m-o-m in April to 330K b/d, the highest since January 2023, according to data from Enterprise Singapore. Gasoline imports were up by 30K b/d m-o-m to 320K b/d, while diesel volumes fell by 90K b/d m-o-m to 140K b/d.
- Thailand's crude imports fell 190K b/d m-o-m and 60K b/d y-o-y to 920K b/d in April, according to customs data. Arrivals from the MEG declined by 150K b/d m-o-m to 530K b/d, the lowest since October, while shipments from Asia fell by 40K b/d m-o-m to 180K b/d. Volumes from the US rose 30K b/d to 150K b/d.

Implications

The SSY VLCC MEG loading count for May rose by 9 m-o-m to 165, the highest since August 2022, which has provided support to the market in recent weeks. However, narrower price spreads (Brent-Dubai at narrowest since 1H December in late May) and increased logistical costs associated with importing Middle East crude reports suggest some Asian refiners are cutting back on MEG crude in favour of more attractively priced Atlantic crudes. Indian demand for naphtha rich US WTI crude is also being boosted by firmer demand for petchem feedstocks, according to newswires. The attractive Atlantic Basin-Asia arbitrage economics should continue to support long-haul VLCC demand, particularly given the expected extension of OPCE+ output cuts at its 2 June meeting and anticipated rebound in global refinery runs in 3Q24.

India's CPP Exports



Source: PPAC

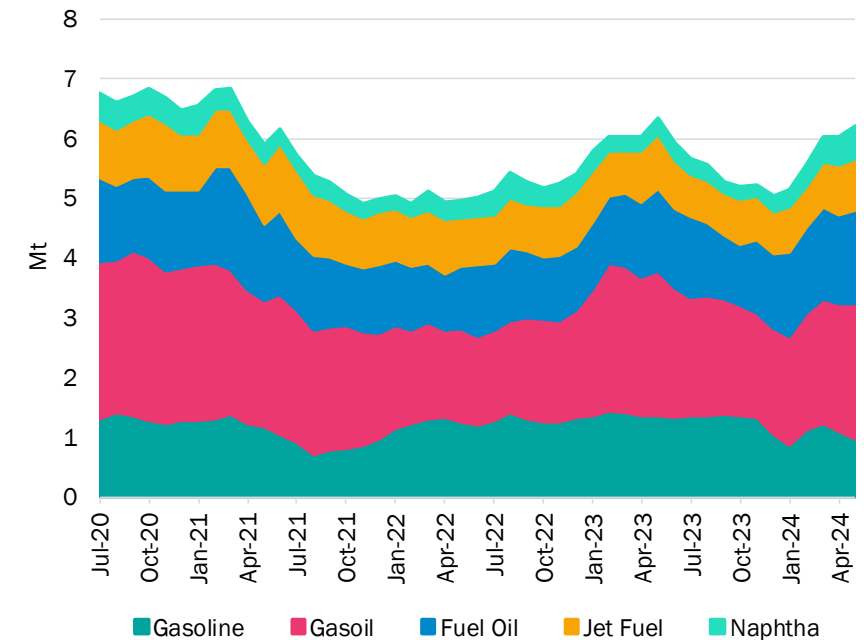
Europe, FSU & Africa

- **Russia has lifted a ban on gasoline exports, as of 20 May, until 30 June**, reports newswires. A temporary 6-month ban was imposed from 1 March, and will be reinstated 1 July-31 August. Russia's domestic gasoline market is currently well supplied and lifting the ban for 40 days aims to prevent overstocking and ensure stable operations are refineries and oil product terminals.
- **Caspian Pipeline Consortium**, which exports crude from Kazakhstan via a Russian Black Sea terminal, is expecting **its exports to average 7% lower** than is preliminary target due to lower than planned loadings from the Tengiz oilfield, reports Reuters. However, levels are still expected to exceed the record 63.5Mt volumes of oil exported in 2023.
- **Nigeria's Dangote refinery has issued a tender** for the supply of 2M bbl of US WTI Midland per month from July, reports newswires. While the refinery is geared towards processing Nigerian grades, WTI has accounted for around a third of its crude imports since December.
- **Sudan's Petrodar pipeline could resume operations by mid-June** after being damaged during fighting in February, reports Reuters. The pipeline normally pumps about 100K b/d of South Sudan's to a terminal on Sudan's Red Sea coast.
- **Spain's Repsol has received a licence from the US Treasury Department** allowing it to continue and expand its oil and gas business in Venezuela, reports Reuters.

Implications

The lifting of the ban on Russian gasoline exports could lead to more cargoes from the country and draw tonnage away from the wider non-Russian market in the short-term. This may provide an additional boost to the clean markets in Europe and the Mediterranean which have firmed this week on the back of increased activity, including UKC flows to the US where the summer driving season has now officially got underway. But, Europe to US gasoline flows could be impacted by low stock levels in Europe moving forward, with the latest data for the Amsterdam-Rotterdam-Antwerp hub showing gasoline inventories are currently around 350Mt lower y-o-y at 995Mt, down from a recent high of 1.25Mt end March, according to Refinitiv data.

ARA Product Stock Levels



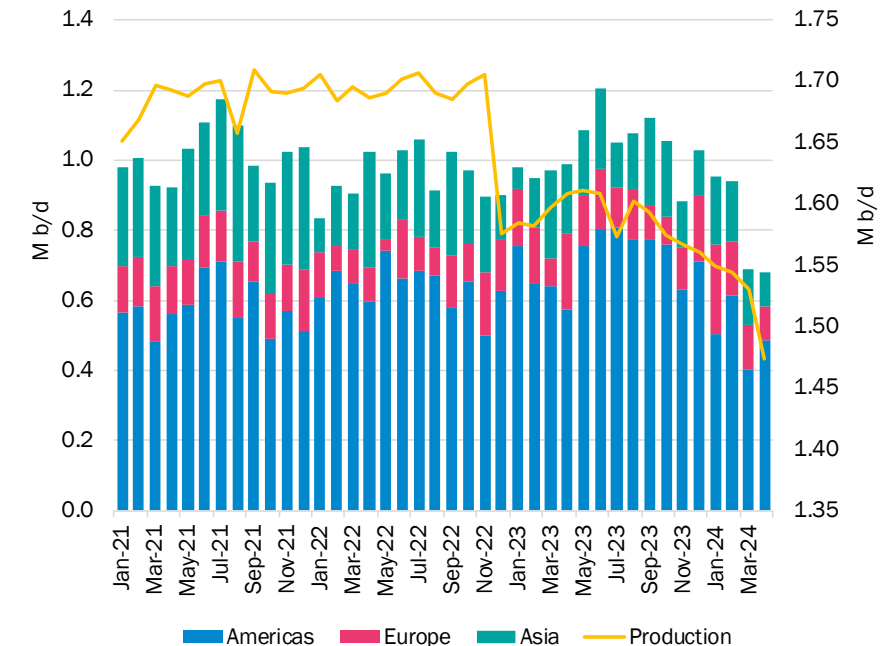
Source: Refinitiv

- Crude output by Mexico's Pemex fell by 55K b/d m-o-m and 135K b/d y-o-y in April to 1.47M b/d, the lowest for over 40 years, reports newswires. Crude exports slipped another 5K b/d to a fresh low of 680K b/d, 310K b/d down y-o-y, according to Pemex data. Shipments to Europe and Asia were down by 30K b/d and 60K b/d m-o-m respectively to 100K b/d, however, levels to the Americas were up by 80K b/d at 485K b/d.
- Mexico's gasoline imports fell 10K b/d m-o-m to 310K b/d in April, the lowest level since February 2022, according to Pemex data. Diesel shipments were up by 20K b/d m-o-m to 130K b/d, the highest this year. Meanwhile, refinery runs were down 110K b/d m-o-m at 950K b/d, but this was 35K b/d higher y-o-y.
- Pemex started sending 16,300 b/d of crude to its new Olmeca refinery in mid-May, less than 5% of its total capacity, reported Reuters. Schedules show the refinery is due to receive 170K b/d in August, still half the feedstock for the 340K b/d facility. Having been inaugurated in July, the refinery was projected to reach full capacity in 2023 but the project has been hampered by delays.
- Guyana's oil production rose to 625K b/d in April, reported Argus, citing government data. Around 60% of its exports headed to Europe in 1Q24, or 370K b/d, according to Signal Ocean tracking data.
- The first crude has been exported from the Trans Mountain pipeline (TMX) expansion after the first Aframax cargo was loaded at the Westridge Marine Terminal in Vancouver, reports newswires.

Implications

New Mexican oil fields have not been enough to compensate for the decline of older fields, with oil production continuing to fall. This has impacted crude exports heavily, in particular the Aframax market, with earnings for EC Mexico-USG set to average a year-to-date low in May. Tracking data suggests exports picked up again in May, likely due to a power outage at the 315K b/d Tula refinery and fires at the Salina Cruz and Minatitlan facilities, reported Argus. But, this uptick is set to be short-lived with the new 340K b/d Olmeca refinery due to start receiving larger volumes of crude in the coming months. In contrast, Aframax should start to benefit from the start up of the TMX expansion, with cargoes being booked to China, while Suezmaxes are being supported by the burgeoning Guyanese export trade to Europe. Reports suggest more Guyana cargoes are also starting to head to the USG, which would provide more Suezmax opportunities if this trade develops.

Mexico's Crude Production vs Exports

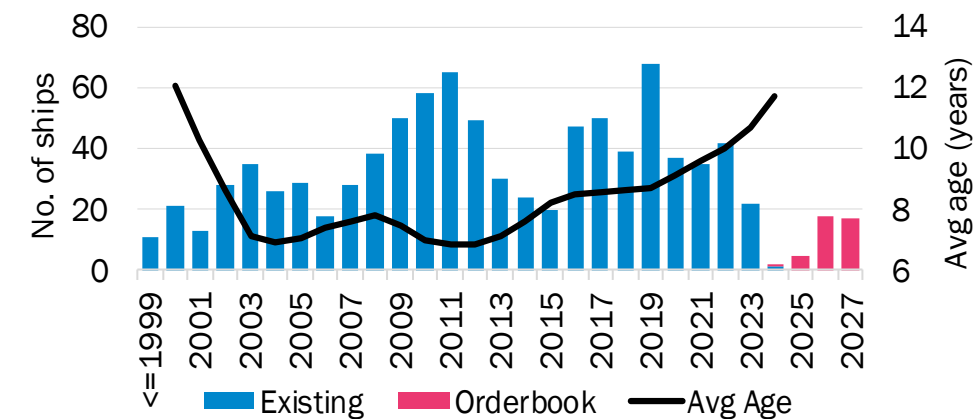


Source: Pemex

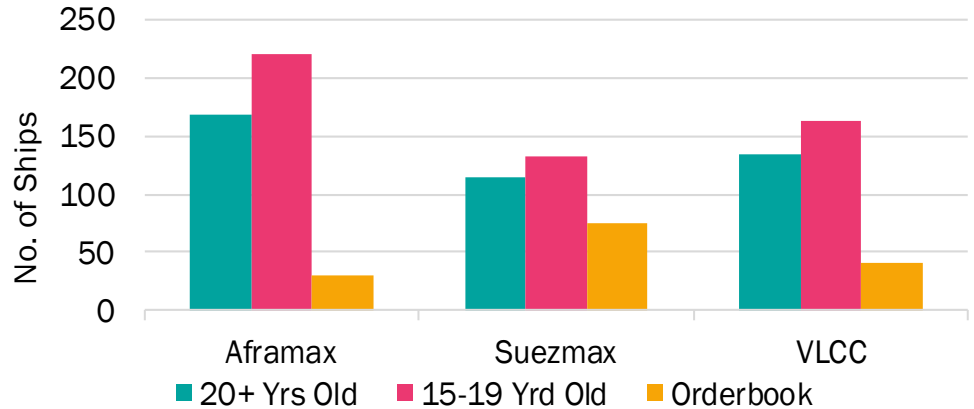
Fleet Dynamics



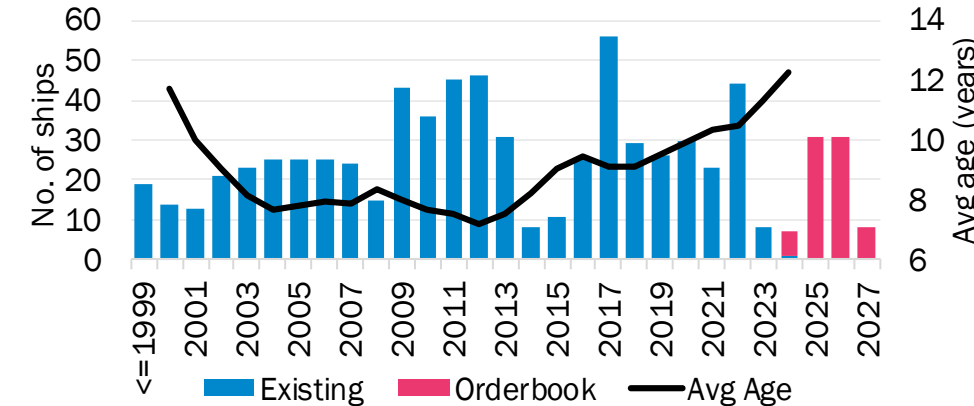
VLCC Fleet Profile vs Average Age of Fleet



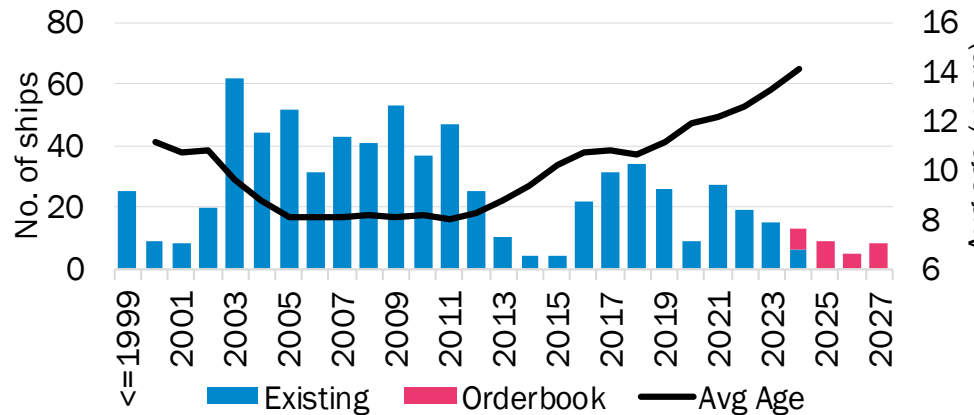
Crude Orderbook vs Older Tonnage



Suezmax Fleet Profile vs Average Age of Fleet



Aframax Fleet Profile vs Average Age of Fleet



Source: SSY, IHS

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