Fuel source uncertainty to rein in dry bulk vessel ordering

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by Cichen Shen

But asset plays for new tonnage might resume if yards provide attractive financing

UNCERTAINTY in the transition of fuel sources as a result of regulatory changes will delay dry bulker owners from ordering new tonnage, according to Oak Maritime (Hong Kong) managing director Jack Hsu.

The International Maritime Organization's 0.5% sulphur cap, which comes into effect in 2020, means that if owners do not opt to install scrubbers, they will have to switch to distillate fuel oil from heavy bunker oil.

The former is currently priced at around $440 per tonne in Singapore, while the latter is about $280 per tonne depending on the centistokes viscosity.

However, it will take time for the cleaner-burning distillate fuel to reach a market equilibrium price, leading owners to delay scrubber installation on concerns over high costs and the impact on vessel electrical systems, said Mr Hsu at a panel discussion during the Asian Logistics and Maritime Conference in Hong Kong.

He added that liquefied natural gas as an alternative fuel might be more practical for container ships due to their regular trading patterns and a more predictable development in bunkering facilities.

But owners of dry bulkers which carry out tramp trades without fixed scheduled or port of calls, will be more reluctant to invest before the technology and infrastructure mature.

Mr Hsu argued that this lack of clarity in fuel direction, along with more attractive prices in secondhand vessels compared with newbuildings, will keep bulker owners from making new orders.

If such logic prevails, it will help freight rates towards a sustainable recovery.

Unfortunately, this is often not how the market works.

Precious Shipping managing director Khalid Hashim, sitting on the same panel as Mr Hsu, warned that owners could easily return to the asset-play game if some shipyards start to offer them attractive financing terms.

“The problem in today’s world, with very low interest rates, is that economic logic has been made to stand on its head.”

“What we really need is for interest rates to go up, for sanity to come back and for people to stop ordering assets,” said Mr Hashim.