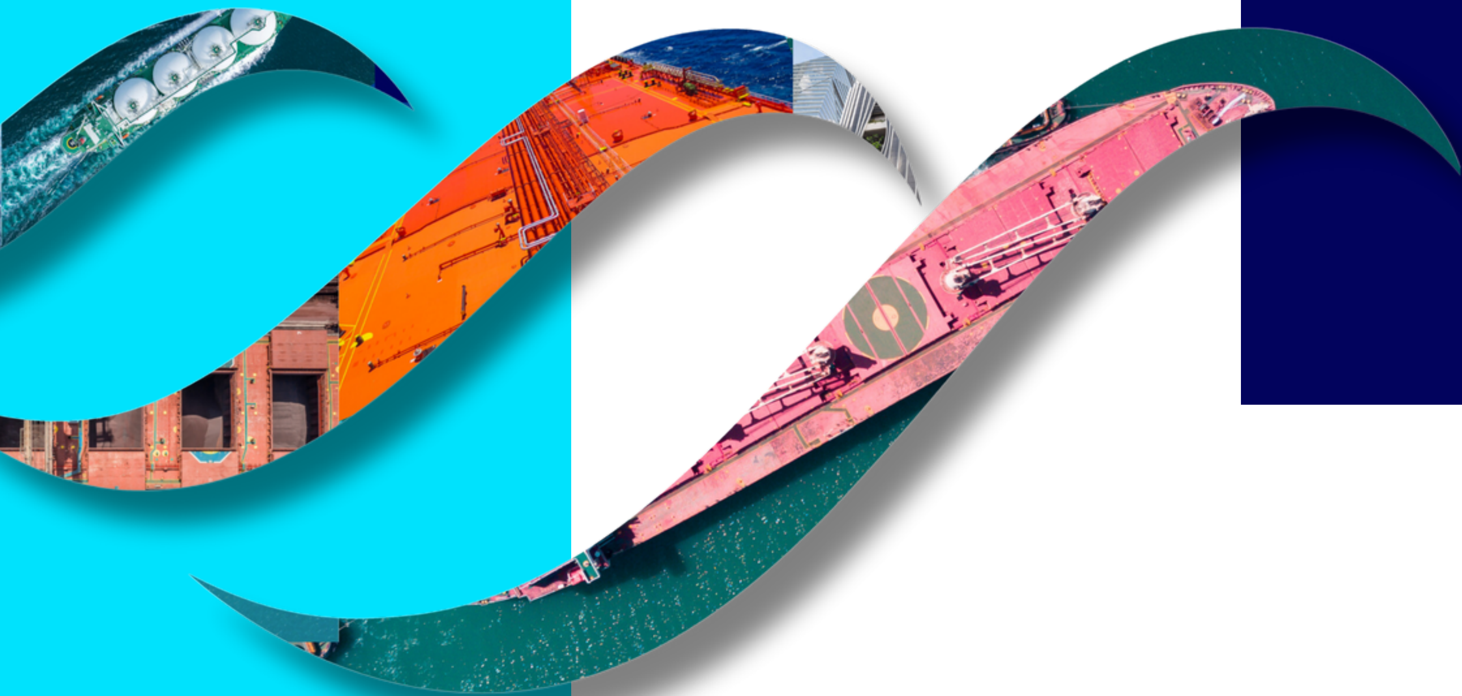
SSY

# Outlook



# 2024

www.ssyglobal.com

# Contents

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# 1880

Established in

# 500+

Shipping experts

# 24

Global Offices

# 24

Hour service offering

# 9

Broking divisions

# 1

Mindset

# We believe that Experience Matters...

Our 144 years of experience as a trusted broking partner, the experience of our broking and research experts and most importantly, the experience that our clients receive from us.

Proudly independent, we have grown to become the largest privately owned broking house in the world. Consistently chartering our own course and in doing so, have shaped the broking industry that we know today.

# Introduction

**Looking back at 2023, I think the year can be summarised in two words - geopolitics and climate. These two factors had a major impact on shipping throughout the past 12 months and their effect will undoubtedly continue to shape the year ahead.**

While 2022 gave us supply security concerns and rearranged energy trade flows due to the conflict in Ukraine, 2023 showed us all, just how resilient global commodity trade actually is – largely due to our efficient shipping industry, with both energy and agricultural prices normalising across the world.

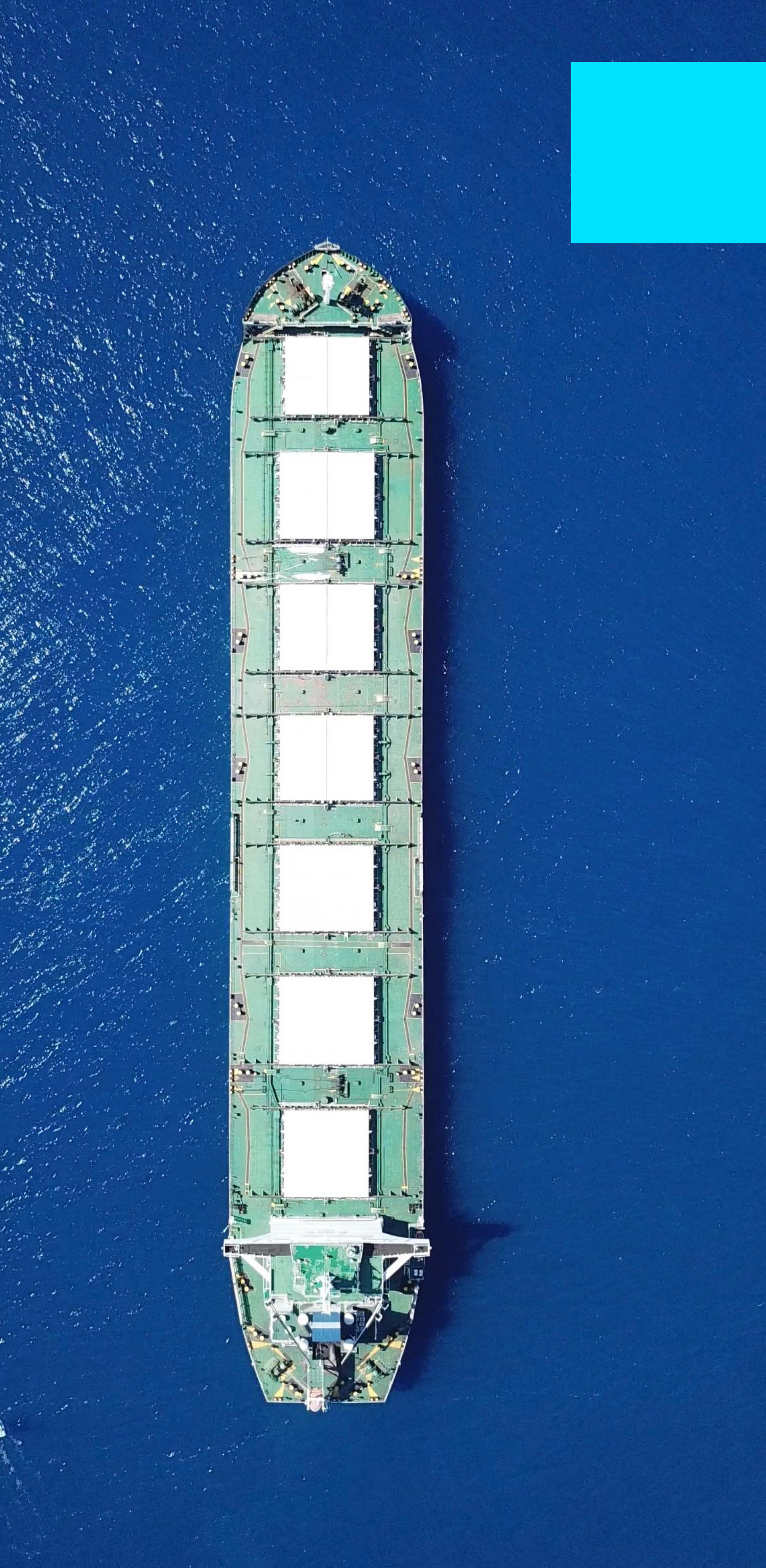
However by mid-year, the lingering effects of droughts and the El Niño weather phenomenon caused a new type of disruption – a sharp reduction in permitted daily transits through the Panama Canal - causing both congestion and the rerouting of tonnage through Suez or around the Cape of Good Hope. No sooner had the market adapted to this disruption, before geopolitics re-entered the fray, with the first reports of commercial vessels being attacked in the Bab El Mandeb Strait, the southern gate to the Red Sea.

As we move into 2024, this last geopolitical disruption has turned out to be increasingly severe, with a large drop in daily Suez Canal transits across vessel segments. While the duration of such disruptions are impossible to predict, what we can be sure of is that 2024 will be another year of increasing volatility given the already tight market fundamentals in most of our segments.

Looking closer to home, 2023 was also an important year for SSY. As a business, we continued to expand into new markets and new territories and employed a further 100 shipping experts, taking our global headcount to 500. Added to this, we unveiled our new global corporate identity and launched our new website – www.ssyglobal.com.

I've no doubt that 2024 will be a successful and eventful year for SSY as we continue to strive to always do better - for our colleagues around the world and of course, for our clients.

**Stanko Jekov,**
**Managing Partner & Global Head of Dry Cargo, SSY**



# Dry Cargo

# Dry Cargo

**For the first eight months of 2023, early forecasts of weakness in the drybulk market appeared to come to fruition, with vessel earnings lingering at the sort of low levels not seen since the negative trade shock during the initial stages of the Covid-19 epidemic in early 2020.**

**Dr Roar Adland –**
Global Head of Research

In the first quarter, the weakness was largely related to the usual seasonal challenges in terms of logistics, with heavy rains in Brazil and east coast Australia, in particular, affecting iron ore, grain and coal shipments. Weak post-Covid macroeconomic headlines out of China, still-high inflation in most developed countries and high port efficiency in China did not help sentiment as the year progressed.

Underneath the surface, by mid-year, estimates suggested that demand was looking rather strong, contrary to what the headlines in the financial press suggested about the state of Chinese demand. Chinese imports of iron ore and in particular, thermal coal and bauxite, were on track to reach record levels, with first-half bauxite imports up 11% y-o-y and thermal coal imports up a massive 102% y-o-y to 176Mt based on Customs data.

In the second half of 2023, several factors combined to light a fire under the drybulk freight market, with Capesize earnings leading the way to an early December peak of around $55,000/day based on the Baltic 5TC average, a level not seen since October 2021.

Firstly, the El Nino weather phenomenon led – as expected – to a less-severe rainy season in West Africa and later into Q4, drought conditions in the key iron ore producing regions of central Brazil. The resulting very strong Atlantic bauxite and iron ore exports into Asia were the main driver of the tightening in the Capesize segment, though strength in the peripheral North Atlantic trades and Atlantic delays also contributed given the region's weighting in the index.

Secondly, record grain exports out of Brazil, ports operating at capacity and a slower pace of barging due to low river water levels combined to boost both tonne-mile demand and East Coast South America port congestion for the Panamax and Supramax segments. By mid-October, nearly 200 Panamaxes were waiting off Brazil – about 150 vessels (or 5% of the fleet) higher than normal for the time of year. Naturally, the temporary removal of such a large part of the fleet from active trading supported Panamax rates in Q4.

By early August, the long-running drought-related challenges of the Panama Canal also came to the fore, as the Panama Canal Authority implemented the first of several reductions in the number of daily transits allowed through the Canal, in addition to previous draught restrictions. Panama Canal congestion and bulker waiting times peaked the same month and have since normalized, but only because many vessels have been rerouted to avoid the canal altogether.

As of early 2024, the allowed number of daily transits, 24 vessels, remain well below normal operations which average at around 35. While the net effect of the Panama Canal disruption is not very large, as rerouted vessels effectively exchange Canal waiting days for longer sailing (SSY Research estimates the effect at a fraction of a percent of available supply), the fact that the disruption happened during a time of general tightness in the Atlantic market nonetheless supported both sentiment and rates in the second half of the year.

All told, 2023 turned out to be a strong year for drybulk fundamentals, with SSY's final estimates for the year suggesting 5.0% tonne-mile demand growth versus a steady 2.7% growth in fleet supply (DWT basis), excluding changes in fleet efficiency (speed and congestion). Breaking down the sources of tonne-mile demand increases, coal and iron ore trades contributed around 30% each, followed by bauxite (20%) and minor bulks. More specifically, long-haul US and West Russia coal into Asia dominated tonne-mile demand growth in the global coal trades, while Brazilian iron ore and Guinean bauxite into China drove the remainder.

## 2024 Outlook

Turning to the outlook for the drybulk freight markets in 2024, we first have to state that our base case forecasts are conditional on there being no new major geopolitical shocks which is, unfortunately, not necessarily the obvious outcome at this time.

We are actually more constructive on the Chinese steel complex going into 2024 - contrary to most macroeconomists. The reasons are twofold. Firstly, the property market correction in China has now been ongoing for nearly four years, which means that the sector is smaller relative to the other sectors driving steel demand (from approx. 40% share of domestic steel demand in 2020 to an estimated 33% in 2023). Secondly, the other sectors – notably auto manufacturing, shipbuilding, infrastructure and manufacturing – showed strong growth throughout 2023 and have the continued support of Chinese policymakers for 2024. Improving prospects for Chinese steel demand does not necessarily translate into substantially higher seaborne volumes of coking coal and iron ore, though, as this mainly relies on the pace of mining capacity expansion among key exporters.

In terms of expanding export capacity, we believe it is unlikely that the rapid pace of growth in 2023 – particularly for Brazilian iron ore and Guinean bauxite – can be maintained. In the case of Brazil, the strong export growth last year was mainly down to minor miners – a performance they are unlikely to be able to repeat, whilst Vale predicts another year of near zero growth. As for Guinean bauxite export growth (+33% in 2023 based on vessel tracking data), capacity expansion is expected to slow, while on the demand side, the opportunity for further import substitution in China is diminishing.

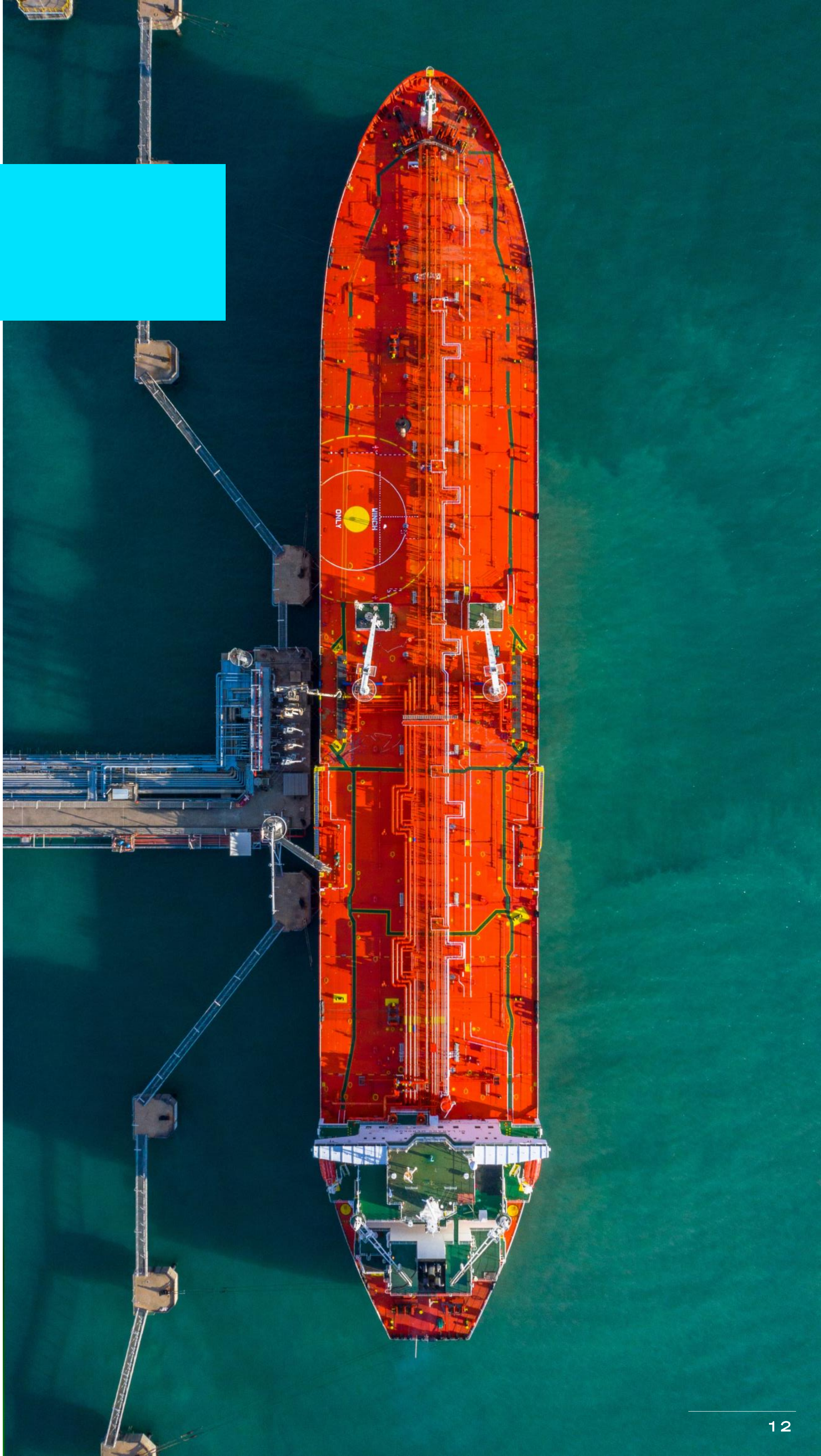
The coal market is probably the hardest to have a qualified opinion on. We can be fairly certain that the massive increase in Chinese thermal coal imports in 2023 - driven by low hydropower production, policy-induced restocking, safety-related domestic mine shutdowns and a price arbitrage that has been generally favourable to imports – will not be repeated. The question is whether we will see a levelling off or an absolute decline in Chinese coal imports. At the moment we are predicting the latter but, at the same time, that India and South East Asia will pick up that demand slack, leaving global coal trade stable at current record levels.

On the whole, we expect overall drybulk tonne-mile (TM) demand growth to moderate to 2.7%, which happens to be on par with our projected fleet supply (DWT) growth at 2.6%. While this suggests an unchanged fundamental balance to where we are at the present, a much more interesting picture arises when we look at the individual size segments. In particular, Capesizes look substantially stronger on paper, with a projected 2024 tonnemile growth of 3.3% vs. a mere 1.3% forecasted fleet growth. Panamaxes are not far behind (forecasted 4.2% TM growth viz. 2.7% fleet growth), though we acknowledge that the risk here is on the downside due to the potential for reduced South American grain exports compared to current high expectations. At the other end of the spectrum we find the geared vessels with a projected high 4.1% fleet growth and a modest 1.0% TM demand growth.

Geopolitics can only escalate volatility, with the main wild card at the moment being the disruption to Red Sea trade through Houthi rebels military action. This is affecting the use of the Suez Canal, through which around 7% of global drybulk trade would ordinarily transit. While the most likely outcome is a coordinated international effort to quash the attacks and ultimately, de-escalation, we cannot rule out a prolonged period of rerouting tonnage around the Cape of Good of Good Hope, further tightening the market.

The $64,000 question then becomes whether stronger rates and market sentiment for the larger sizes will manage to pull up the smaller sizes or be capped by them. While we lean towards the latter from a fundamental point of view, the market action of last November and December showed how positive Capesize sentiment can quickly cascade down into the smaller sizes, lifting rates across the board.

# Tankers



# Tankers

## Geopolitical events led tanker market direction in 2023.

**Claire Grierson -**
Head of Tanker Research

The direction of tanker markets in 2023 were again led by geopolitical issues and unexpected events that altered trade flows and created regional disruptions and rate volatility. These included an adaptation to new trade routes in the wake of Russian oil sanctions, backdated Nigerian freight claims, a halting of Kirkuk exports from Ceyhan, French port strikes, OPEC+ production cuts, unilateral Saudi Arabian output reductions, an easing in Venezuelan sanctions, reduced Panama Canal transits and vessel attacks in the Red Sea.

For the crude tanker sector, Aframaxes and Suezmaxes benefitted from the increased flows of Russian crude to China and India, with EU owned vessels able to lift this oil under the price cap mechanism. This helped to squeeze tonnage supply for these segments in the 1H23 as vessels carried crude from the Arctic, Baltic and Black Sea to the east, boosting tonne miles. Many of these ships then ballasted back west to carry a Russian cargo on their next voyage (given the freight premiums being paid), so creating greater fleet inefficiency, especially for Aframaxes. But when the Russian oil price moved above the price cap and with Russia making crude export cuts in line with OPEC agreements on reducing production, Aframax and Suezmax rates in the Atlantic quickly tumbled in 3Q as G7/EU ships were unable to lift Russian oil and opened for wider trading again.

Unexpected disruptions earlier in 2023 that also underpinned tanker earnings included French strikes that delayed ships loading and discharging in Europe. A halting of Kirkuk exports of under 500K b/d from Ceyhan meant that some European refiners sought replacement crude from the Middle East Gulf, adding to voyage times for Suezmaxes especially. Nigeria issuing a backdated freight claim in June for owners that had traded to the country in prior years caused a brief jump in Suezmax and VLCC rates as it meant that owners were either unwilling to work Nigerian cargoes or placed a premium on West Africa cargoes. Some charterers also switched to looking at VLCCs to lift from West Africa rather than Suezmaxes, as there was a greater chance of a VLCC having not called in Nigeria as it is an especially active Suezmax trade.

Climbing Atlantic Basin crude supply, specifically from the US and Brazil which registered record exports, proved positive for the VLCC market in 2023, particularly as high Aframax and Suezmax rates at times priced these sizes out of their traditional USG-Europe routes, and this became a regular monthly trade for VLCCs. But it was a rise in Atlantic oil shipments to the east and the consequent squeeze in Atlantic Basin VLCC supply that created a firmer trading environment. A rebound in China's crude needs in the wake of its post-Covid recovery also boosted tanker trade, with the country's crude imports and refinery runs rising to record levels.

OPEC+ made a series of crude supply cuts starting from May of around 1M b/d and another 1.4M b/d from July, but more significant was the announcement of a unilateral 1M b/d cut by Saudi Arabia while Russia pledged to trim exports by up to 500K b/d and this started to weigh on global tanker cargo volumes. Yet conversely, this ended up supporting longer haul tanker trades as Asian refiners looked to Atlantic basin crudes to cover the shortfall. This was accentuated by a narrowing in the oil price spread between Brent and Dubai benchmarks that made Brent-linked crudes more attractively priced for shipment to Asia.

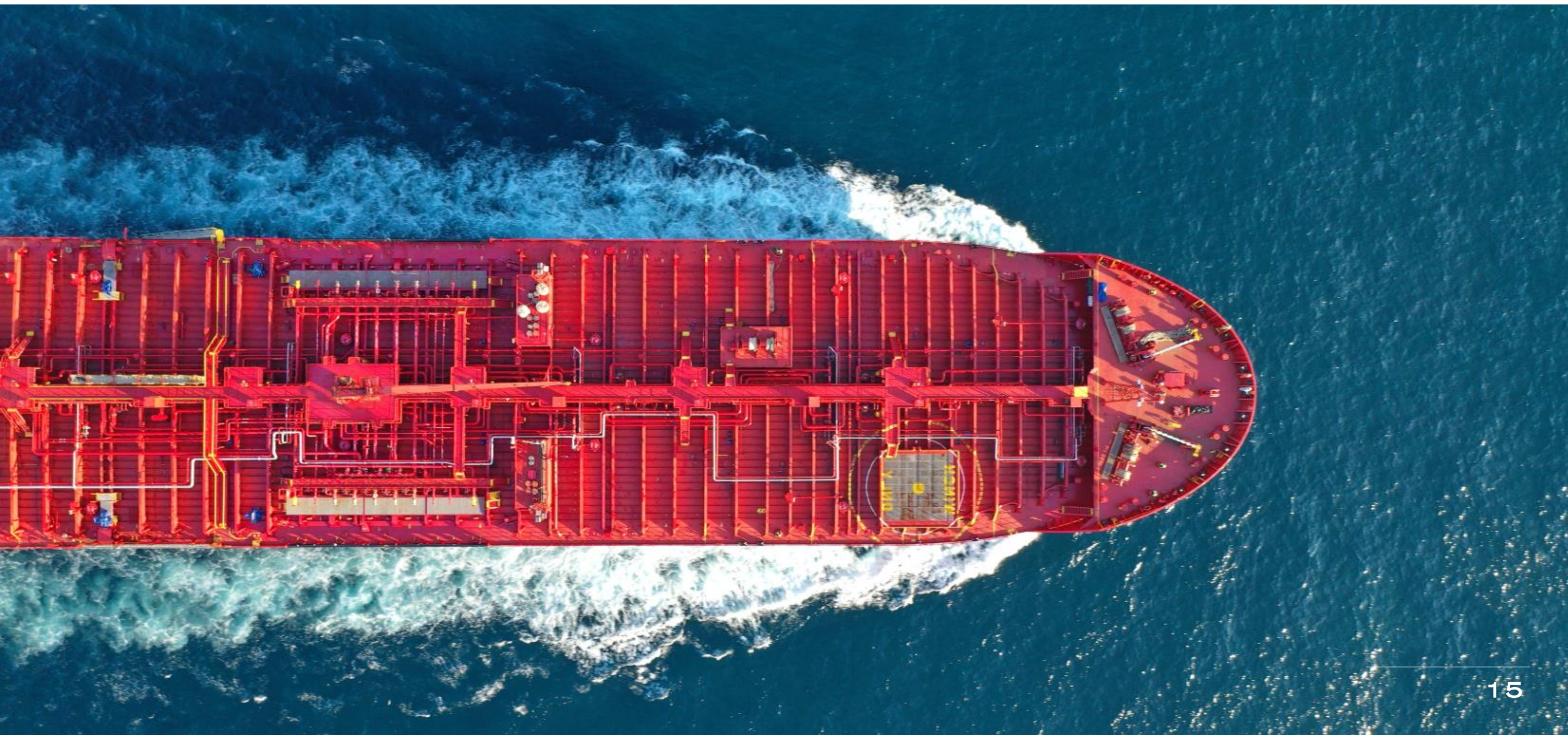
## Buoyant Clean Tanker Markets

Clean tanker markets were buoyed in early 2023 by the 5 February EU ban on Russian refined product imports. As Europe sought alternative supplies of middle distillates, it imported greater volumes from the Middle East, Asia and the US, which strengthened LR rates in particular. China's product exports were also elevated as the country had released a higher batch of export quotas, which capitalised on a global squeeze in diesel supplies. In Europe, a month-long strike in France by refinery and port workers that began in March caused vessel delays and de-stocking, forcing charterers to pay higher levels to secure ships with firm itineraries.

But rates East of Suez did come under pressure from newbuild VLCCs and Suezmaxes lifting cargoes for diesel shipments to the west while diesel demand in Europe was dampened by economic and inflationary pressures as interest rates climbed and industrial activity stalled. There was also an unfavourable price structure for diesel arbitrage shipments from East of Suez to the west that also curtailed trade.

Russia found new markets for its refined products, mainly to Latin America and the Middle East and again, this helped underpin freight rates due to the longer distances. This did partially alter the dynamics of Atlantic Basin clean trade as US oil became less competitive in its stronghold Latin American market, so it exported more to Europe. This was positive for MRs but did lessen Europe's demand for East of Suez oil, which at times alleviated some of the strength in LR rates. But unexpected refinery outages in Europe in 2-3Q and refiners operating with a lighter crude slate due to OPEC+ cuts and the Russian crude import ban led to a downtrend in Europe's gasoil and jet stocks that again boosted trade flows from the East of Suez.

One of the unexpected events affecting the clean market later in 2023 was the delays and consequent reduced transits through the Panama Canal as El Niño weather conditions led to months of low rainfall. The Panama Canal Authority made a sharp cut in the number of ships able to pass though the waterway in November and December and this curbed clean tanker trade from the USG to west coast Latin America. Instead, cargoes were directed towards West Africa and Europe, squeezing USG MR supply and December average earnings for the benchmark MR USG-Europe route were at their highest that SSY has on records which began in 2002.



## 2024 Outlook

The tanker market has already started 2024 with trade uncertainty on a few routes and some disruption. An escalation in Houthi-led attacks on ships sailing through the Red Sea and a US-UK military response has spurred an increasing number of tanker owners to avoid sailing through the area and others, to make the voyage but with additional war risk premium for charterers account or to look at shipments on a case-by-case basis.

Consequently, rates have climbed sharply for shipments that would typically have routed via the Red Sea and Suez Canal with more cargoes now being fixed and heading around the Cape of Good Hope. The clean market has seen the greatest spike in rates given the volume of refined products that moves from the East of Suez to Europe, which has grown post EU Russian sanctions. At 12 knots, the journey time for a Jubail-Rotterdam voyage via the Cape of Good Hope would increase by 16 days to around 39 days compared with the same route via the Suez. This is creating greater fleet inefficiency and that will continue to underpin rates in the short-term until owners and charterers deem that the risk on Red Sea transits has lessened. With more broader concerns over geopolitical tensions within the Middle East region in the aftermath of the Israel-Hamas conflict, this does represent an area of risk for the tanker market this year.

Reduced Panama Canal transits are expected to last at least through to 2Q24, until rainfall is able to boost water levels again and therefore will continue to impact clean tanker trade flows in the near-term. The west coast of the Americas may seek more refined product supply from Asia to meet a shortfall in supply from USG refiners.

The start-up of new refinery capacity within the Atlantic Basin this year may have negative implications for clean tankers that trade within the area, but this is dependent on the pace and scale at which the facilities come online at. In Nigeria, this includes the 650K b/d Dangote refinery while previously mothballed refining units are being restarted with the intention of creating self-sufficiency in the country's refined oil needs. Nigeria is a major gasoline importer as is Mexico, who is also bringing online a new refinery, the 340K b/d Dos Bocas facility. Both could reduce cargo demand, especially for MRs.

Another project that could alter tanker trade this year is the TransMountain pipeline, that is set to bring Canadian crude to the country's west coast for export, where it will mainly be shipped to the US west coast and Asia. This will bolster trade for Aframaxes as this is the maximum vessel size that can load from the line. The start-up is planned for end March.

And finally, 2024 will see a sharp slowdown in tanker fleet growth as scheduled newbuilding deliveries are the lowest since the early 2000s. Uncertainty over future fuels, high asset prices and yards previously being full with gas and container orders had capped tanker contracting.

# LNG

# LNG

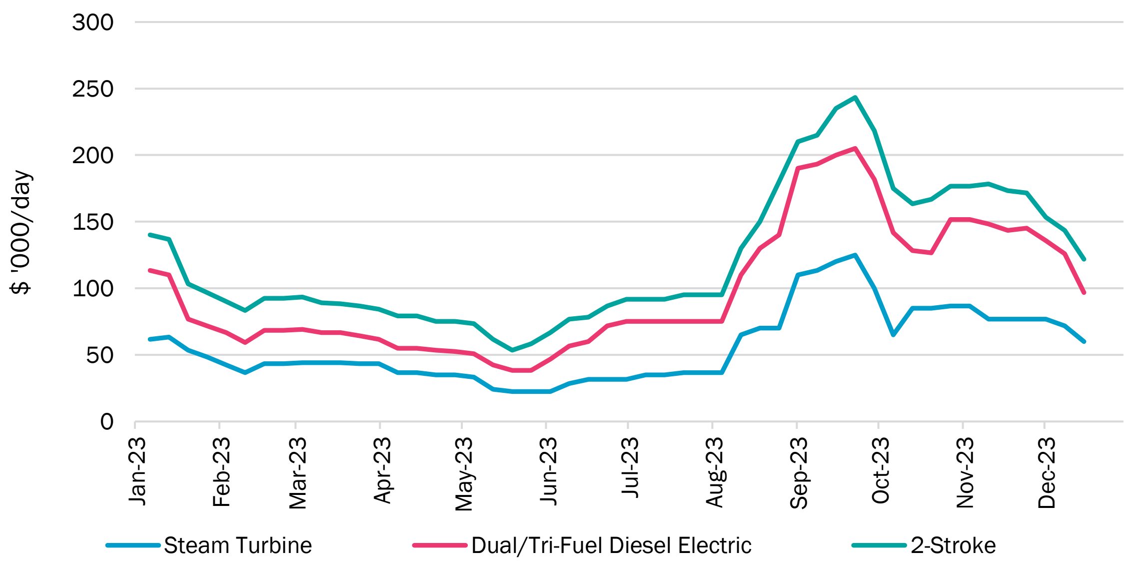
**Toby Dunipace -**
Partner & Global Head of LNG

**Kyla Schliebs –**
Head of LNG Research

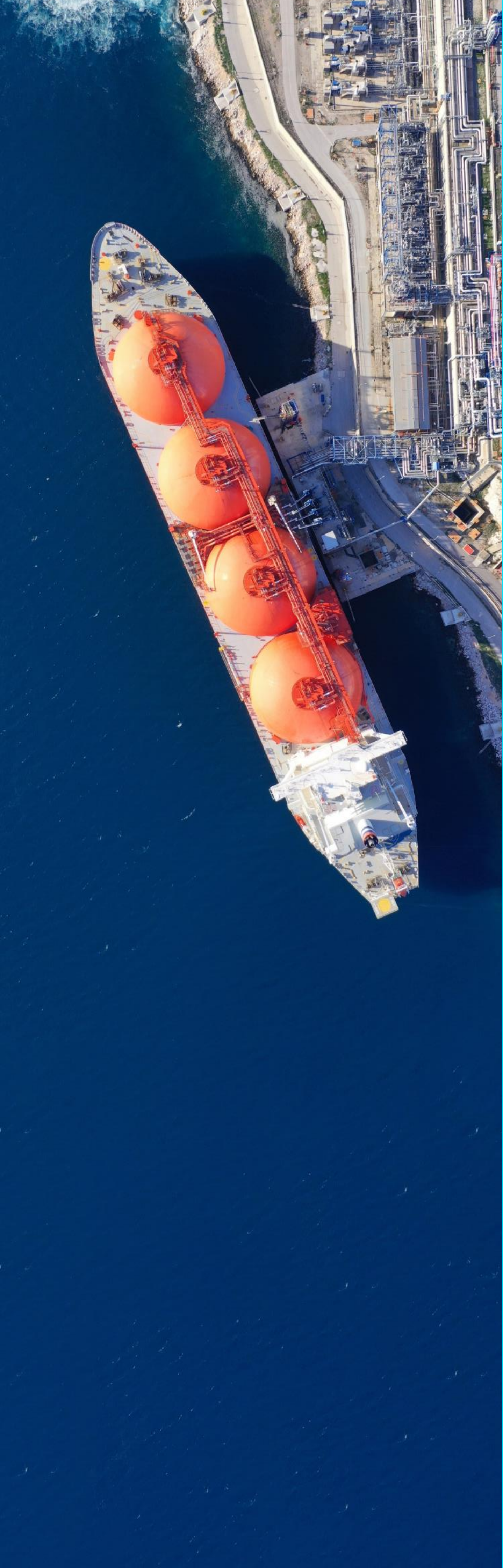
**If 2022 was the most turbulent LNG shipping market since records began, then 2023 could be characterised as one that never really lived up to the hype.**

There was nothing earth shattering about 2023, which perhaps was to be expected. Any drastic market must settle eventually and it felt for much of the past 12 months as though the party is starting to wind down. In last year's iteration of this report, we pointed out the status of the market, especially in the last 6 months of 2022, with phrases such as, "defied all predictions," and "broken all records." The period that followed has been less hyperbolic, but nevertheless, interesting.

**Spot Charter Rates by Propulsion Type**




Source: SSY



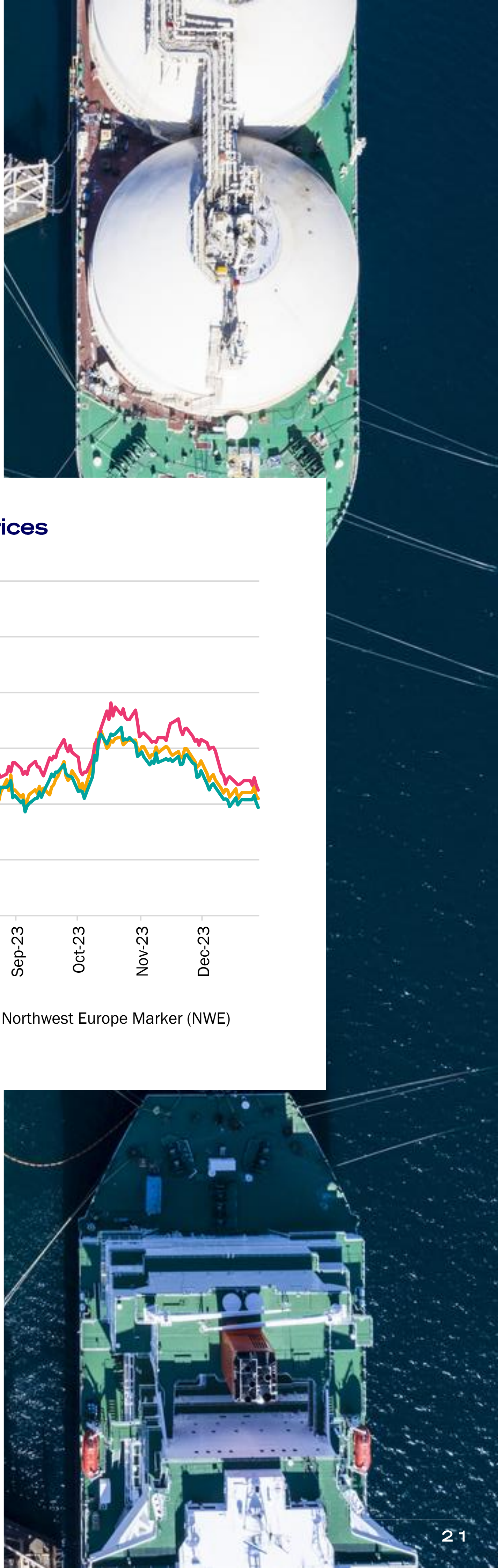
Q1 2023 saw the market for LNG tonnage drop notably from the winter period as tightness in availability slacked, and more freight options were available to Charterers. While the conflict in Ukraine (the buzz phrase for 2022) was ongoing, market nervousness had somewhat eased and the need for freight security was less pronounced as we were exiting what was, until that point in time, a very mild winter. Rates in the first two weeks alone fell 30% in the Atlantic and 16% in the Far East. Unsurprisingly, the steadily decreasing levels we saw across December dropped at a much quicker pace in January. On top of this, the Freeport LNG facility remained shut down and this lack of LNG volume in the market only added to the poor conditions that players were faced with. Interestingly, despite a falling spot market, the term market (especially the 12-month market) remained fairly robust. This was unusual (to have a sustained elevated 12-month term market compared to the spot market), but it is likely that this was a hangover from 2022, and some Charterers were eager to lock in the remaining independently owned tonnage rather than risk being exposed to relet options for the remainder of the year. The issue with relet tonnage is that it can disappear very quickly, as those in control of the tonnage are seeing the same drivers as those seeking the tonnage.

The remainder of the quarter continued in much of the same spirit; a closed arbitrage, mild temperatures, and rates that were underwhelming, particularly on the spot market. Rates continued to gradually slide until mid-year; however, as we approached the last week of June, there was an uptick of movement in the spot market with cargoes finally getting covered, but predominantly for Atlantic basin trades. The rates, although they crept up, once again froze at a certain level. We saw a few fixtures being done in the high $80,000 to $90,000/day range but it became clear that August (2H June is the fixing window for August) had in fact more ample length than was marketed, with a few Portfolio Players long shipping due to fleet additions across the previous 12 months.

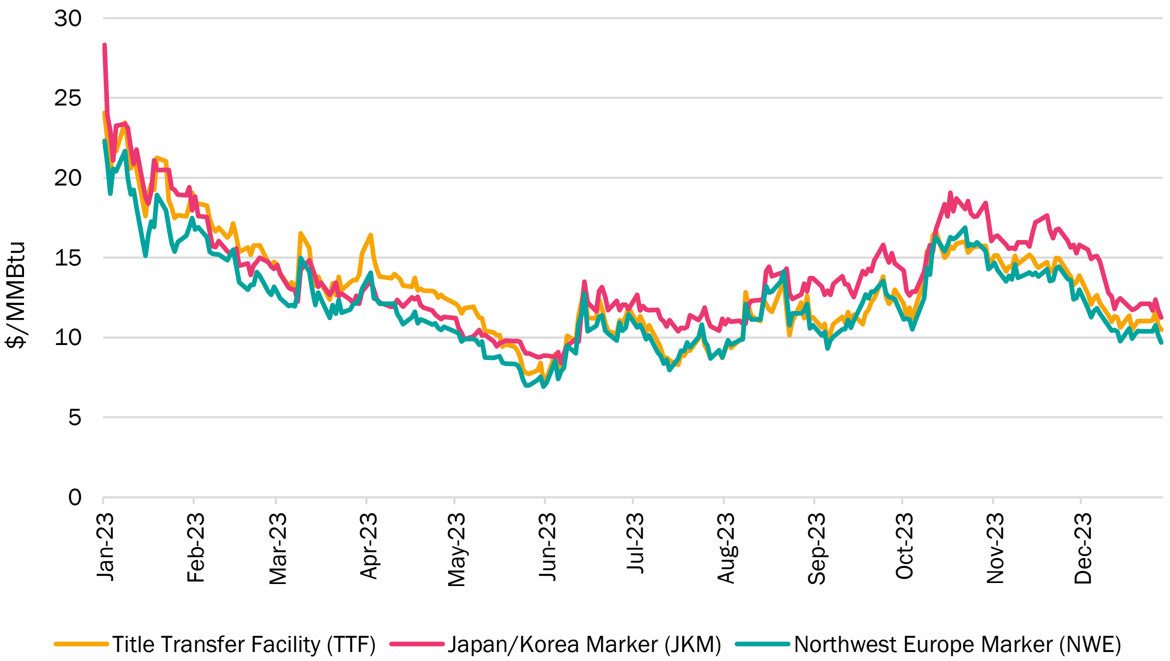
To summarise June and indeed July as a whole, there was quite a lot of optimism in the market during the beginning of the month; however, this faded into uncertainty as the market took a correction by the last week. The spot market levels did increase week-on-week (which was not unsurprising given we had passed the historic early-Q2 lull with winter around the corner), but an abundance of relet tonnage offered to the market kept a lid on drastic improvement.

The market witnessed another lull during August, and it was not until mid-September that we saw a proper flurry of activity with a number of deals across the Atlantic, Middle East and Pacific as a swathe of October loadings secured tonnage. The market edged ever closer to the mid-November fixing window which many participants expected to be the peak of freight spot rates in 2023, followed by a potentially steep drop-off thereafter. The pinnacle of 2023 had already occurred with one late-October loading out of the USG concluded in the mid-$200,000/day range on a 2-stroke vessel. Note, this mid-$200,000/day range for modern tonnage was nearly half of where it was during 2022. While still very solid in terms of freight returns for Owners, as we commented on during the introduction, not living up to the hype!

The spot market fell towards the end of the year as there was minimal demand increase against a lack of cold northern hemisphere temperatures. Storage levels around the world remained high and the lack of a Chinese demand resurgence has been a major factor in tempering the market for LNG tonnage. In years gone by, prior to Covid-19, China was often the big market mover between 2017 and 2020, as its demand could escalate significantly. However, poor economic conditions in the country have been noted as a significant factor against any serious market improvement.



## LNG and Natural Gas Prices



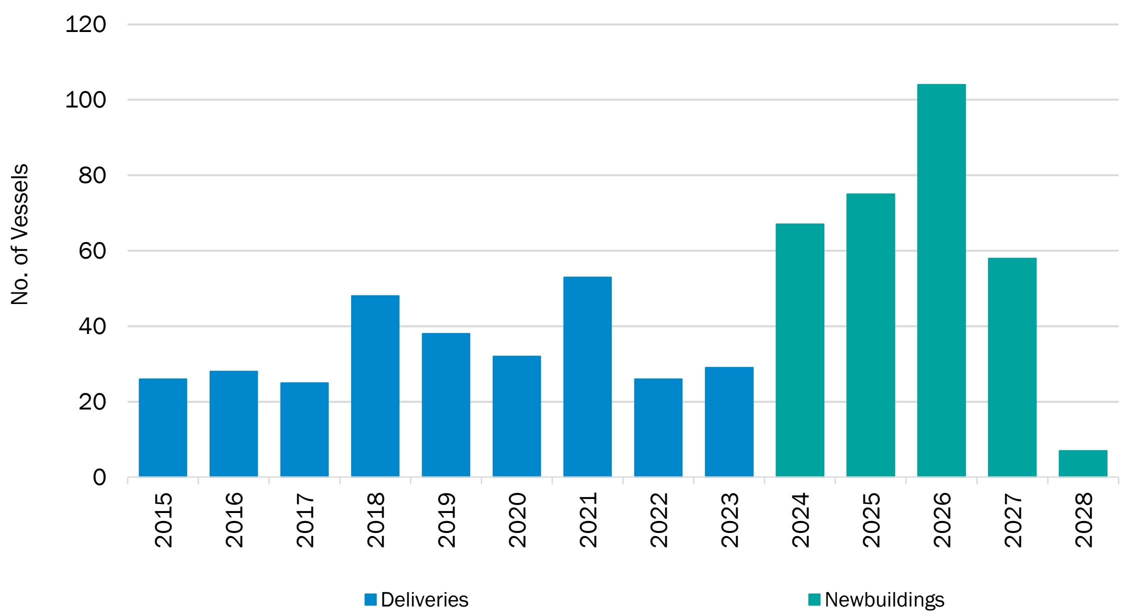

Source: Platts

One constantly bullish factor throughout 2023 was the high newbuilding price with the shipbuilding market in Korea remaining very healthy. Whilst ordering in 2023 was down year-on-year from 2022, the price levels remain robust ($250m+). This is due to a combination of factors, namely; a forward ordering time of around 18-24 months, meaning that Owners are considerably ahead of the natural ordering window for LNG/Cs. As such, even with a fall in orders, the yards have not been in a rush to secure orders at a discount. On top of that, in Korea especially, there has been a concern over a healthy orderbook resulting in a lack of skilled labour. High interest rates and steel prices have also contributed to preventing any real downward movement on price. In addition to the high price, the Korean yards in particular have demanded very yard friendly payment terms, often with 40% (or more) due within the first 6 months of any Ship Building Contract.

One of the knock-on effects of the situation in Korea has been the rise in the popularity of Chinese building. The major Chinese shipyards (i.e. not just Hudong anymore) have seen multiple orders, and these will be the first LNG orders placed at the yards. These units are due to deliver from 2025 onwards and this marks a major shift in the LNG/C shipbuilding space. Chinese yards have offered a notable discount to Korean pricing, which is to be expected considering the lack of experience for LNG building.

## 2024 Outlook

LNG/C Deliveries & Newbuilding Schedule




Source: SSY

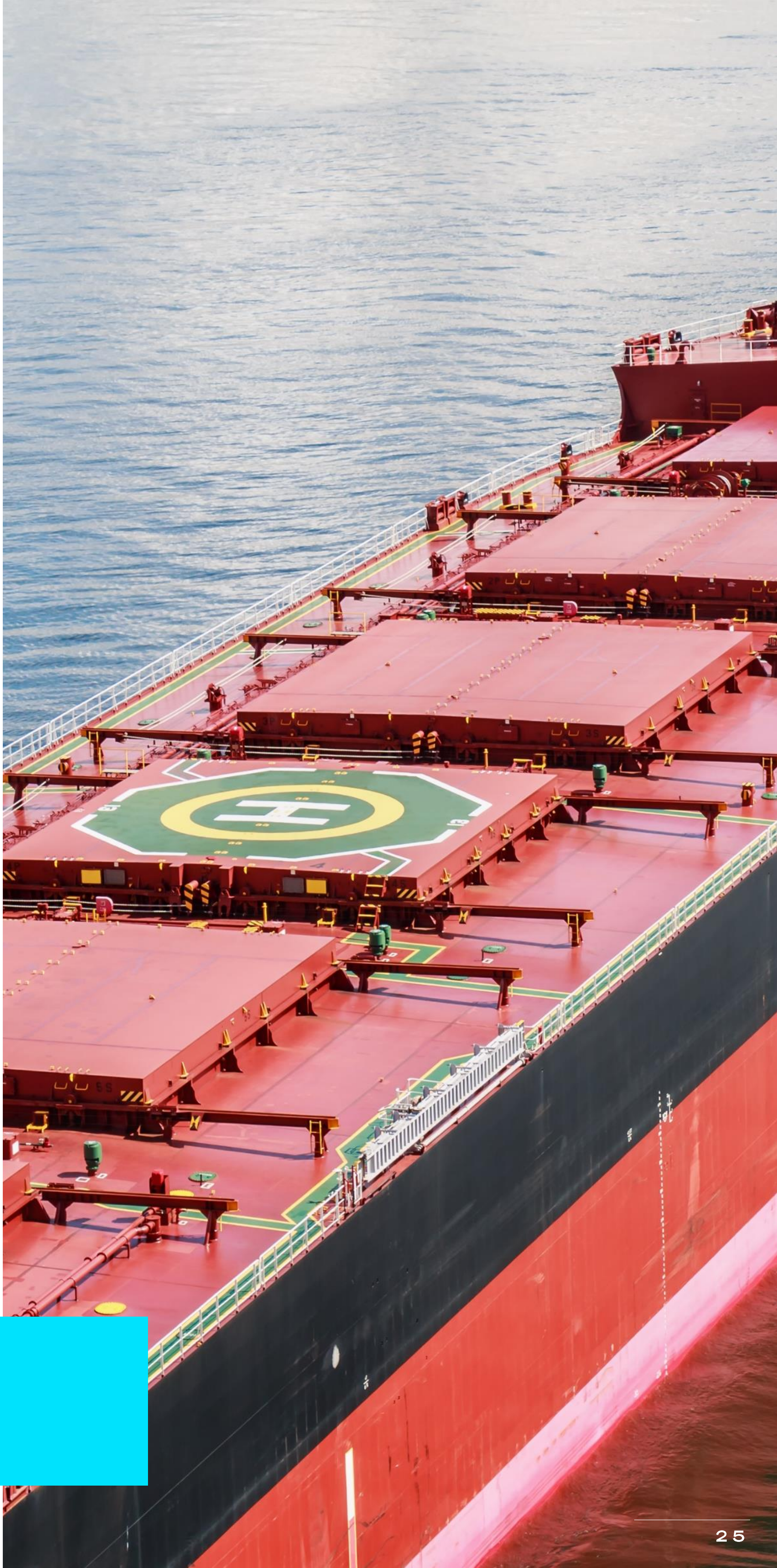
As we look towards 2024, the initial outlook is one of bearishness with a healthy amount of tonnage expected to be delivered, juxtaposed against a limited amount of new LNG capacity coming onstream. There is certainly, on the face of it, a supply-demand imbalance in favour of a long freight market. The arb looks to be closed for the time being and we are likely faced with 12 months of intra basin trade. The forward curves for LNG tonnage look to be depressed; however, 2-stroke tonnage is likely to remain the preferred type of vessel for Charterers given the attractive speed and consumption figures included (reliquefaction systems also being an important plus point).

Based on market fundamentals, the outlook is bearish; however, the first and most notable factor that could shift the outlook is the current attacks we are witnessing in the Gulf of Aden. A resurgence in attacks on commercial shipping from terrorist cells has escalated and at the moment the Red Sea is being avoided by LNG tonnage. Should this situation escalate or even continue as it is, and the Red Sea closes entirely, this could be a bullish factor for the market. Similarly, as ever, the major swing factor for the LNG shipping market is demand for the commodity itself, and if we see an increase in demand due to harsh weather conditions, either in the summer or winter (although it is more likely to be winter that has an impact), lower pricing stimulating demand in emerging markets resulting in cross basin trade, along with the ongoing conflict in Ukraine, we could see a shift in market direction. Energy security in Europe (which is intrinsically linked to freight security) is still a concern that players in Europe will be keeping a close eye on.

2024 will see more attention paid to the new emissions regulations that have come into effect for our market with CII and EU ETS being key talking points for any chartering discussion. As the market and those in control of tonnage become more familiar with the role of shipping in reducing global emissions, this will surely become engrained in our business and will have an impact on market direction, though at this stage it still remains unclear as to how pronounced the impact will be. In these initial stages, the older Steam Turbine tonnage has begun to slow down (engine performance limitation systems are now commonplace), and this has impacted the desire to consider these ships as chartering options. More modern tonnage seems to be mostly unchanged in respect to Charterers' interest in these units, but things will become clearer over the next 12 months.

Nobody quite knows which direction the market will take; however, it will be an interesting market as ever. If the analysts are correct and the market looks to be weak over the next 2 years, then it is not a long period to wait, as the overriding sentiment from 2026 onwards is one of enormous positivity for LNG shipping.

# Sale & Purchase



# Sale & Purchase

**Toby English –**
Partner & Global Head of S&P

**2023 proved to be another busy and eventful year in the S&P and Newbuilding markets with a healthy number of transactions and orders taking place across all sectors, and against the backdrop of some significant geopolitical developments, most recently in the Red Sea.**

Buying appetite in the second-hand Tanker market was strong throughout, whilst activity in the Drybulk segments started off slowly, but in-line with improving fundamentals, it picked up swiftly as we entered the second half of the year. In other segments, areas which had been largely ignored suddenly saw a surge in activity. A case in point being the burgeoning VLAC newbuilding market, a market that saw its first orders in Q3 2023 and which to date, has seen over 20 orders with more being discussed. Interest in the VLGC newbuilding market also crept up and this in turn saw a significant impact on 2nd hand values, with the hike in newbuilding pricing having a knock on effect on the very few ships that could be developed for sale. A case in point being 2 x resale VLGC units being sold in December at US$ 120 million each, a huge increase in value when considering that they were originally contracted in the lower/mid US$ 80s.

Turning to more specific sectors - in the Drycargo market, positive sentiment following the re-emergence of China in Q1 2023 post-Covid was short-lived, as vessel earnings for the first half of 1H 2023 plummeted to new lows and the BDI bottomed at 530 points in February. However, the Capesize and Panamax markets improved between March-May due to increased coal and iron ore exports out of Australia and supply tightness in the Atlantic.

The summer months proved to be weak earnings-wise, predominantly due to weak macroeconomic factors in China, allowing Buyers to pick up tonnage that represented 15-20% drops against prices earlier in the year, with a forward view of the freight market improving in the longer term. To highlight this, a 2010 built Dolphin57 was sold at USD 11.5 mill in July, whereas a 2011 built Dolphin57 achieved USD 14.2 mill just two months earlier.

However, fundamentals began to improve into 2H 2023, which perhaps had a delayed positive effect on the second-hand market moving into Q4 2023. Strong Chinese coal imports and healthy Capesize fronthaul into Asia resulted in a sharp spike of the BDI. Market sentiment turned and Owners took advantage of this shift, with Capesize earnings peaking at around USD 55,000 p/day in December. Incentivised by this, Capesize units changed hands regularly. Approximately 50 vessels found new ownership in 2H 2023, compared with around 20 in the same period a year before.

Whilst the number of Capes that changed hands jumped, the illiquidity of supply for eco tonnage created a widening spread in values versus their non-eco peers. In December this was highlighted with the sale of an eco 2011 Tsuneishi Cebu built Cape at USD 26.8 mill, when compared for the sale of a non-eco 2011 HHIC built Cape at USD 24 mill in July. Furthermore, uncertainty lingering around designs for new buildings and their fuel type - as well as a limited supply of berths at the yards - has steered more buyers to the second-hand market, contributing to this elevated demand.

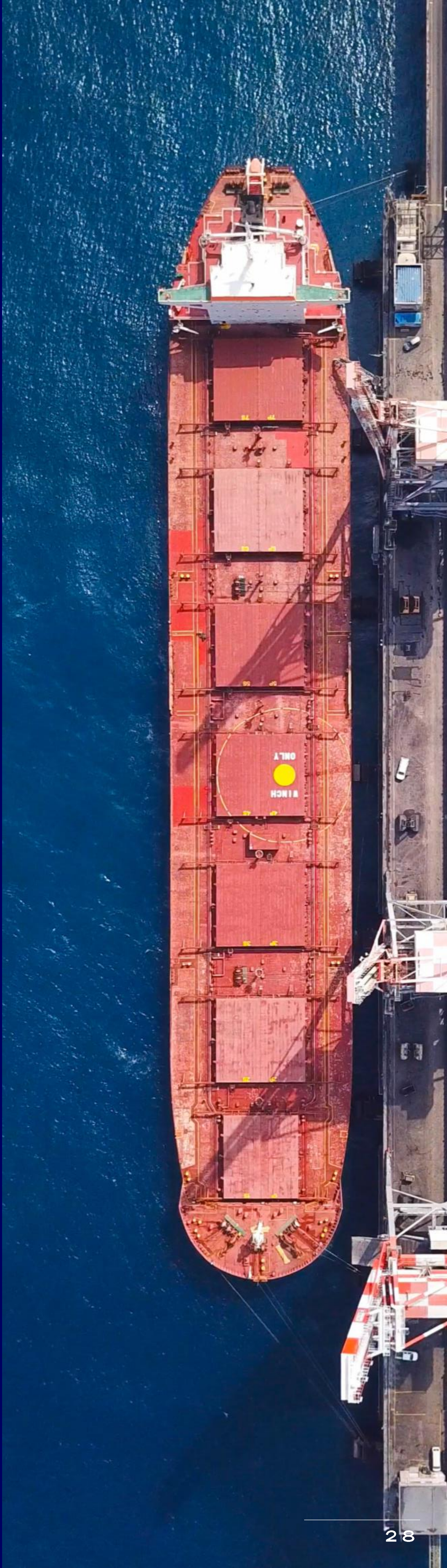
2024 arrives amidst a backdrop of uncertainty and potential volatility, which may prove positive for owners. With a relatively tight orderbook for larger Capesize (2.21% current fleet) and Panamax (3.45% current fleet) vessels delivering this year and a slightly higher orderbook (nearly 5% of the current fleet) for the geared segment, we don't see any issues in the supply being absorbed, with the many ongoing macroeconomic factors in the market potentially meaning increased rates, as well as increased demand for tonnage on the S&P side - particularly in the modern ECO end of the market where availability remains very limited.

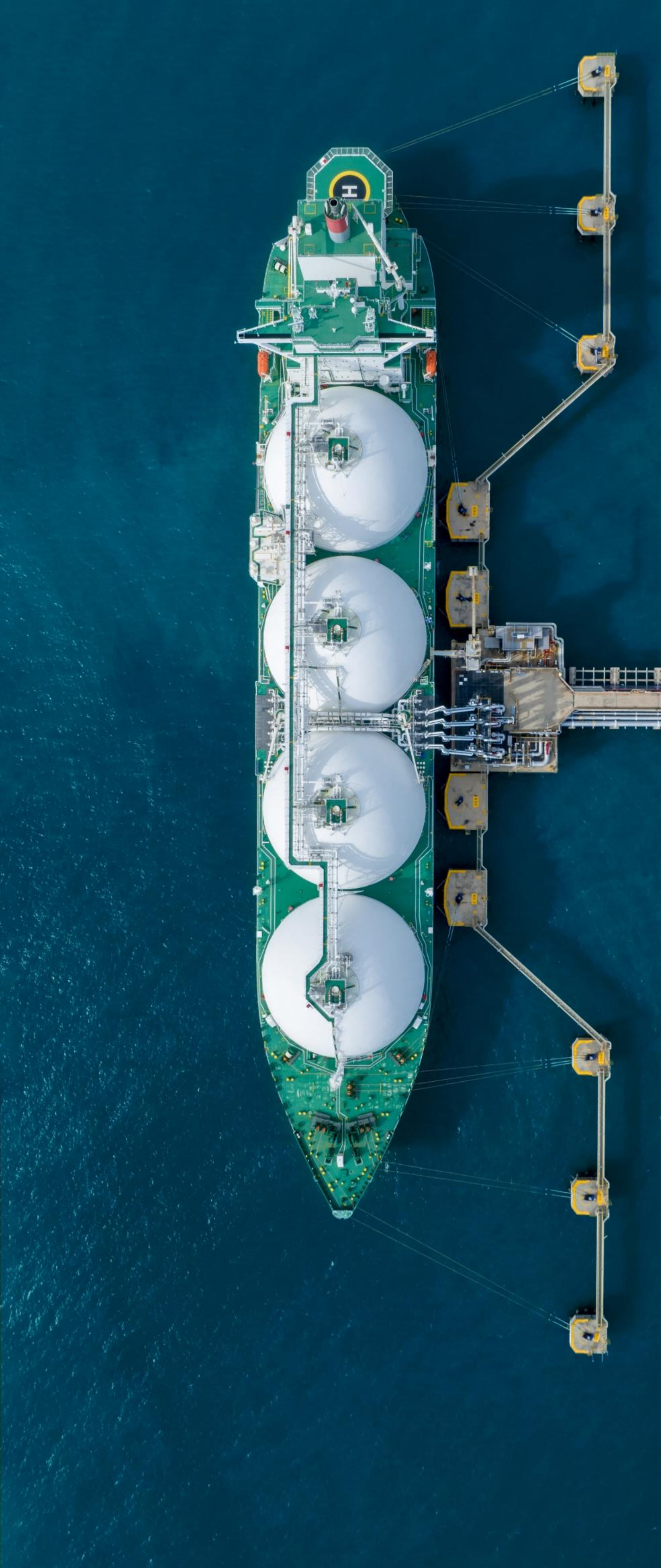
In the Tanker segment, following on from a strong 2022, both the S&P and chartering markets have continued in a similar fashion in 2023. Subsequently, asset prices have remained firm against the underlying strong - and relatively stable- spot and period markets, which have been largely underpinned by the ongoing Russia / Ukraine conflict, limited scrapping of older tonnage and the comparative dearth of new tonnage scheduled to hit the water in the next couple of years. Recent developments in the Red Sea are also having a significant impact in the Tanker segment and other shipping sectors.

As a case in point of earnings and pricing developments over the year, average VLCC spot market earnings (c. 2010 blt) for first week December 2022, were at USD 54,702 p/day, compared to USD 52,325 p/day at the same point in 2023. In contrast to these rates, we saw a firming in asset values for ECO tonnage. For example, in November 2022, a 2013 scrubber-fitted Hyundai built VLCC achieved a price of USD 66 mill, whilst in early December 2023, a same-aged sister sold for USD 73.5 mill. Asset prices on the vintage side of the market were still relatively strong, although we did note a softening in values in the latter half of 2023. As a comparison - in October 2022, we saw the sale of a c. 20-year old South Korean VLCC at USD 40 mill. In the same period of 2023, a 2002 built Korean built vessel garnered a price in the low USD 30 mills. The disparities between ECO ships firming in values & more vintage ships softening are in large part as a result of increased pressure on the dark fleet, as well as increasingly stringent regulatory measures such as the recently imposed EEXI/CII changes. Interest in older ships is more muted and naturally buying focus is on more modern tonnage, particularly against sparse availability. As a case in point, we saw 2020 built VLCC tonnage achieve levels in the mid USD mid 90s around mid-2022 and in the latter half of 2023, 2019 built units achieve levels of USD 114-116 mill - an increase in around 20+% when factoring in age differences and year of sale.

Following on from the above, we noted that almost a third of Suezmax sales in 2H 2023 were aged 10-years and younger and close to 60% being built from 2010 onward, thus further illustrating the conscious move amongst Owners toward more modern tonnage.

We recorded a total of 52 Aframaxes changing hands this year, with the most notable sale in February, where we saw 2 x 2023 South Korean built units being sold for USD 77.5 mill each. On the clean side of the market, we note fewer sales in this size, with 35 LR2 Tankers changing hands this year – an approximate Y-O-Y decrease of around 15%. This is no reflection on buying appetite, but as we have suggested above, it comes against the backdrop of limited availability.





In the LNGC sector, demand remained firm for newbuildings in particular, with prices moving over the course of the year from lower US$ 200s to mid USD 260s for the latest orders. There seems to be no sign of this level of demand dropping and with a number of LNGC newbuilding projects materialising in the coming weeks, we expect to see more orders in due course, even with current berths being offered for 2028 and beyond. There was fairly limited 2nd hand activity, mainly confined to the older Steam and DFDE sectors, however there was one notable sale of a modern 160k cbm vessel built 2013 earlier in 2023, for a notable price of USD low 180s.

In conclusion, our expectation for 2024 are similarly bullish for the S&P and Newbuilding markets. With demand still very strong for modern, eco tonnage across all sectors, as well as more limited newbuilding capacity, we would expect to see strong competition for what little tonnage becomes available in the market. Demand for older tonnage also looks set to remain firm, although we could see a softening in values for post 15 year tanker tonnage as increased restrictions from regulatory pressures means a more restricted trading environment.

# Offshore

# Offshore

"Looking at the offshore supply market in reverse, we want to underline that it is no longer a market in recovery. On the contrary, we now see balanced market conditions across global offshore segments with promising underlying drivers going into 2024."

**Johan Gustafsson**
Offshore Analyst, Offshore

## North Sea

**In 2023, we saw the number of PSV fixtures on the Norwegian side decline to just above 100, almost half of what we saw in 2022.**

This is due to the lack of vessels and operators engaging in term contracts to secure tonnage, instead of being dependent on a limited spot market. For PSVs in Norway, the market was close to sold out since the end of April before slowing down somewhat during the last month of the year. For the first quarter of the year, we saw spot rates averaging at around NOK 115,000 with term rates being notably higher - averaging at NOK 215,000. Venturing into April, the market entered a sold-out state on the Norwegian side and spot rates were averaging close to NOK 300,000 until the last month of the year where activity slowed down due to the usual winter downtick in North Sea offshore activity. Norway is ramping up production towards 2025, illustrating that the Norwegian market shows no signs of slowing down. Norwegian requirements for PSVs are stricter than for the UK side, so even though the markets are strongly intervened, there are some vessels especially suited for working on the Norwegian side and usually experience a higher premium on the Norwegian Continental Shelf. It was therefore somewhat unusual to see two large Norwegian built PSVs, the COEY Viking and Aurora Storm entering four and two years (respectively) term contracts plus options for Harbour Energy on the UK side. This has caused the list for Norwegian ready PSVs to shrink and going into a busy 2024 we expect even more favourable rates for the remaining PSVs.

On the UK side, we saw a slow start to the year with PSV spot rates averaging at 6,500 GBP, while term rates were indicating a favourable summer market with vessels being fixed on term contracts at 20,000 GBP. However, the UK side did not experience the seasonal highs and spot rates ended on an average of about 16,000 GBP during the usual busy summer months, providing a better outcome for vessel owners who decided to engage in term contracts at the start of the year. This can be explained by two factors; Due to the promising regional market forecast for 2023, we saw UK vessel owners reactivating what remained of the laid-up fleet before the start of the year. Even though activity levels where higher than the previous year, the excess supply was just enough to satisfy demand, avoiding seasonal supply limitations.  In addition, the UK was hit by a windfall tax the

the previous year increasing tax liabilities for major oil and gas producers which likely offset some investments for the year. Going into 2024, we expect UK activity to remain at the same level as 2023, but this does not mean that we will see a similar picture for the PSV segment. Norway is increasing production which will limit availability on the UK side. Global offshore activity is also ramping up and we see the global OSV markets becoming more intervened. For North Sea PSVs, we have seen vessels leaving the region - making the voyage to both West Africa and Latin America where competitive rates are being achieved. Considering the stricter vessel requirements in the North Sea and the one-month relocation duration, the immediate return of these might be unlikely and we see the opposite scenario rather more likely to unfold. We therefore also expect rates on the UK side to firm up in 2024 to match the global competitive market conditions.

The subsea segment has seen a significant uptick this year and supported earnings for all the diverse companies employing the more technical tonnage such as AHTS with crane and subsea vessels. The versatile work a subsea vessel is capable of, will grow consistent with all offshore sectors and we also see a strong correlation towards the renewable sector. The subsea renewables correlation first kicked off with renewables utilizing the vessels due to the low day rates. Rates since then have improved, and purpose-built subsea vessels are now often offered at a premium, both in the O&G and renewables sector due to the increased demand from renewables. Furthermore, the subsea backlog has notably increased across the board during the year as the supply of subsea vessels remain static while activity is on the rise.

On the AHTS side, 2023 still provided low utilization and the segment seems to be lagging behind the PSV and Subsea segments. We know from the last up-cycle that AHTS rates have the potential to reach significant higher rates than the latter. The year has however presented

a sense of rates we might see when supply is limited. There were several instances in 2023 where rates exceeded the 1 million NOK or 100,000 GBP mark when supply was limited, illustrating the potential in a tighter market. However, seeing that the rates remain somewhat favourable in terms of per fixture, the working scope for AHTS in the North Sea has changed since the last up-cycle. We now see more rigs being utilized on DP only as the technology has improved. In addition, the working days per job has been reduced as the mooring is often pre-laid and some rigs are equipped with quick release after the work is done. This has reduced the AHTS demand days per working scope. The AHTS have also extended waiting time between the jobs, as they are normally fixed some days in advance. This makes the reported day rate somewhat unrepresentable. Most AHTS trading the North Sea spot market have struggled to reach a higher utilization than 50%. That being said, the global AHTS fleet is in a good position as global activity continues to pick up. Total active fleet count is now close to 2016 levels and due to lay-up time and state of the cold-stacked units, we see little to no reactivation potential left. For the high-capacity units, the market drivers are expected to originate from Latin America. Brazil has reported high demand for AHTS due to their FPS-startups and if half of this goes according to plan, we might see over 10 new FPS brought on stream in the country for 2024 alone. This is to be considered one of the main drivers for the AHTS market in the North Sea considering it is where most of the high spec units are located. We do not expect the promising synergetic effect for AHTS and floating wind to play out for the next two years at least, but when it happens, the high-capacity units will be in short-supply.

## Middle East

2023 has been the year of consolidation for the Middle Eastern OSV fleet. We have seen several transactions where vessel owners are increasing their foothold in the region with large fleet acquisitions and previous transactions being materialized. Abu Dhabi ports purchased ten vessels from E-NAV for about $200m with an average fleet age of just nine years - 13 years below the industry average of 22 years. We also saw the ADNOC L&S acquisition of Zakher Marine International (ZMI) materialize which increased their fleet by 38 OSVs. This also resulted in the company seeing profits rocket during the year, seemingly taking advantage of the large activity on the region. Another company strengthening their position in the region is Rawabi. Rawabi has been very active acquiring more than 50 OSVs over the last two years, primarily resale vessels from China or other Asian distressed assets This has resulted in them becoming the majority player in Saudi Arabia operating over 100 vessels.

We have seen increased activity from all the “big three” producing countries in 2023. This is coming from already high activity levels from the previous two years and just about every OSV in the region is back in action. Both Saudi Arabia and UAE had record high utilization for AHT(S) and PSVs with above 90% throughout the year. Qatar came in slightly lower with a slower start in the beginning of the year, but utilization has picked up since the start of the summer and is now in line with Saudi Arabia and UAE. Over the last years, Qatar has seen a large increase in their OSV fleet, moving from approximately 100 OSVs in 2019 to approximately 220 currently. During the same timeline we have seen Qatar Energy adding seven drilling rigs to their fleet resulting in a total of 23 rigs operating in the country. The main driver for the increase in supply is the North Field development projects which are expected to expand further going into 2024.

Saudi Arabia has seen an increase in offshore activity underpinned by work-scopes related to offshore mega projects. There are currently 1,800 installed platforms in Arabian Gulf waters moving towards 2,200 in 2028 and Saudi Aramco has 88 rigs on contract with an expected increase to 90 during 2024. Saudi Arabia is significantly ramping up production going forward, moving towards their targeted output capacity of 13 million bpd. The Berri oilfield expansion and the Marjan increment, which is set to add 250,000 bpd and 300,000 bpd respectively by 2025, will increase short-term OSV demand in the country combined with upholding existing production. Due to limited OSV supply in region, Saudi Aramco took some action this year to enable more tonnage. The 15-year age limit on OSVs that oil majors have steadfastly maintained over the last years have been increased, with Saudi Aramco extending it to 20 years. This comes in the light of a global aging fleet that is close to being fully reactivated with very few newbuilds on the horizon. Operations in the Arabian Gulf are mostly done by AHTS with about 6k BHP. Saudi Aramco is now offering rates of up to 17,000 USD, considerably more than what we have seen in the past. Given the current state of the market and the poor condition of the remaining laid-up fleet indicating high reactivation costs, newbuilding is starting to make sense. However, yard spaces are limited as several large Chinese yards have ventured out of offshore during the downturn to focus on other types of vessels. This, combined with a record low orderbook across multiple sectors and financing challenges, is expected to keep a restrain on newbuilding activity, and thus persist the favourable rates for owners.

## Offshore Wind

**The growing demand for low-carbon energy sources, energy security and energy independence has resulted in global offshore wind targets now representing a staggering 408 GW of operational offshore wind capacity by 2030.**

This may seem somewhat farfetched as the current installed capacity sits at 67 GW, where China is responsible for close to half. 2023 has been a mixed year for offshore wind, where we have seen the consequences of the global economic picture with increasing tax rates, inflation and soaring energy prices feeding through the supply chain. As a result of this, early in the year, scheduled FID (Final Investment Decisions) which was set to be concluded in 2023 have been postponed or raised negotiations for project terms, sparking uncertainty around key projects. However, we saw the winds turn towards the end of the year with a stream of positive news towards the sector. The EU introduced a package targeting offshore wind and we saw some of the previously halted projects being divested into new owners securing short-term capacity. We have also seen record-breaking amounts being paid to secure lease areas and large transactions in the sector showing significant willingness to pay and feasibility of projects. Our belief is that the implications we have seen during the year and are currently witnessing is market and project dependent, while the overall momentum and underlying drivers in the sector remains strong.

## USA

In November, Ørsted took a large loss on their US portfolio ceasing development of Ocean Wind 1 & 2 resulting in impairments of 5.6 Billion USD for the company. This caught the market by surprise, as Ørsted increased their equity stake in Ocean Wind 1 at the start of the year acquiring the last 25% of the project from PSEG. The US market is to be considered one of the more expensive markets to operate in when it comes to material and production costs and combined with strict regulations, such as the Jones Act, the current economic landscape is complicating project development even further. There has also been addressed issues in the country from other developers such as Equinor, commencing negotiations for better terms. This can be explained, considering the terms for these first large-scale projects have been agreed upon several years ago, before the notable project cost increases. It should also be added that venturing into an immature offshore wind market presents its own set of challenges, which has been illustrated in the US during 2023.

## United Kingdom

The UK offshore wind sector started the year on the wrong foot with their annual subsidy round, CfD Round 5, resulting in no offshore wind being awarded. This was in strong contrast compared to Round 4 last year where 7 GW of offshore wind projects was awarded. The allocation framework of the CfD rounds have been called into question, as the competitive terms is corresponding to a joint bid process with other renewables such as solar, onshore wind and tidal which has not experienced the same cost increase as offshore wind. This resulted in the maximum bid price being seemingly too low for offshore wind developers wanting to take part. With the UK having a 2030 offshore wind target of 50 GW, a 35 GW increase from their current installed capacity, the necessity of including offshore wind in the CfD rounds is to be considered critical. We therefore saw some action from the UK government towards the end of the year with the publishing of a new adjusted allocation framework going into CfD Round 6 acting more favourably towards offshore wind. The maximum strike price in the upcoming CfD Round 6 for fixed and floating wind has been increased by 66% and 52% respectively and reverted to a separate allocation pot for offshore wind. Another important issue that emerged in the UK during the summer months was the halting of the Norfolk Boreas project by Vattenfall. The 1.4 GW project which is set to come live in 2027, is one of the early key projects needed for the continuation of supply chain development, expanding towards the large capacity arriving towards the end of the decade and beyond. Considering that there were two equally large projects under the Vattenfall Norfolk umbrella, it sparked some uncertainty for the sector. It should be noted that the timing of addressing project issues is not arbitrary, it is very much linked to the scheduled FID (Final Investment Decision) for the projects. This means that some earlier projects having suited the developers yield demand, now needs to be revaluated due to increased cost. However, on the 21st of December we saw a turnaround for the Norfolk Offshore Wind Zone owned by Vattenfall. RWE acquired the three Norfolk projects with a combined capacity of 4.2 GW for 1.1 Billion Euro, only shortly after Vattenfall secured a capacity reservation agreement for the V236-15 MW Vestas turbine making offshore wind development in the Norfolk Zone a huge step closer to reality.

## Germany

A market that has seen a lot of positive traction this year is the German market. Coming in as the third largest offshore wind market globally with 8.2 GW of installed capacity, the development in the country shows no signs of slowing down. In July, Bundesnetzagentur, the German agency overseeing the electricity and gas sector among others, announced the result of the 7 GW auctioned out in for their non-centrally pre-investigated sites. The record-breaking auction netted the government a total of 12.6 Billion Euro divided by four sites. BP secured two of the sites, each with an individual capacity of 2 GW, for a total of 6.78 Billion Euro. The other successful bidder was TotalEnergies securing 3 GW through two sites for a total of 5.82 Billion Euro. This also marked the entry into German offshore wind power for TotalEnergies. The auction framework was done through a dynamic bidding process which ended in the negative spectrum imposing immediate cost to the developers. The successful bidders now have the right to a planning approval procedure for construction and operating offshore wind installations on their site with secured grid connection for the necessary capacity. All four of the projects are set to come live within 2030 - perfectly aligned with Germany's 30 GW target.

## EU

The EU has presented some ground-breaking changes with regards to offshore wind this year and we are seeing more collaborative efforts being made across the union. In October, the EU introduced a Wind Power Package taking proactive steps to support the European wind power sector. The package includes a European Wind Power Action Plan with the main objectives of; Accelerating deployment through faster permitting and increased predictability, improved auction design, easier access to finance, creating a fair and competitive international environment, strengthening grid infrastructure and regional cooperation. Considering offshore wind has historically taken 8-10 years from lease being awarded to being operational, slow permitting and access to finance is to be considered the main obstacles for faster development. Having easier access to capital will play an important role in large scale roll-out of offshore wind. The European Investment Bank (EIB) will provide re-risking tools and counter-guarantees for private banks lending to the wind industry. This will also extend into the supply chain covering manufacturing as well as wind farm financing. On the 19th of December, the package was taken one step further with energy ministers of 26 EU member states and more than 300 companies signing the European Wind Charter, officially committing to deliver on the action set out in the EU Wind Power Package. This strengthening of EU collaboration within offshore wind is an important milestone and much needed to fast-track development.

## Installation vessels

On the vessel side, WTIVs has been fully booked for the year and contracted back-log remains packed. Margins are seemingly high for the segment with reported day rates from 200,000 USD up to 400,000 USD. The announced turbine contracts for the year in Europe are almost exclusively aimed at larger turbine sizes, signalling the need for larger vessels for future projects as the majority of the active fleet is limited to 10 MW turbines. We currently count eight JU under construction aimed at the next generation turbine sizes, all set to be delivered by 2026. However, most of them have already secured installation contracts when delivered, indicating additional demand for larger WTIVs moving towards the end of the decade.

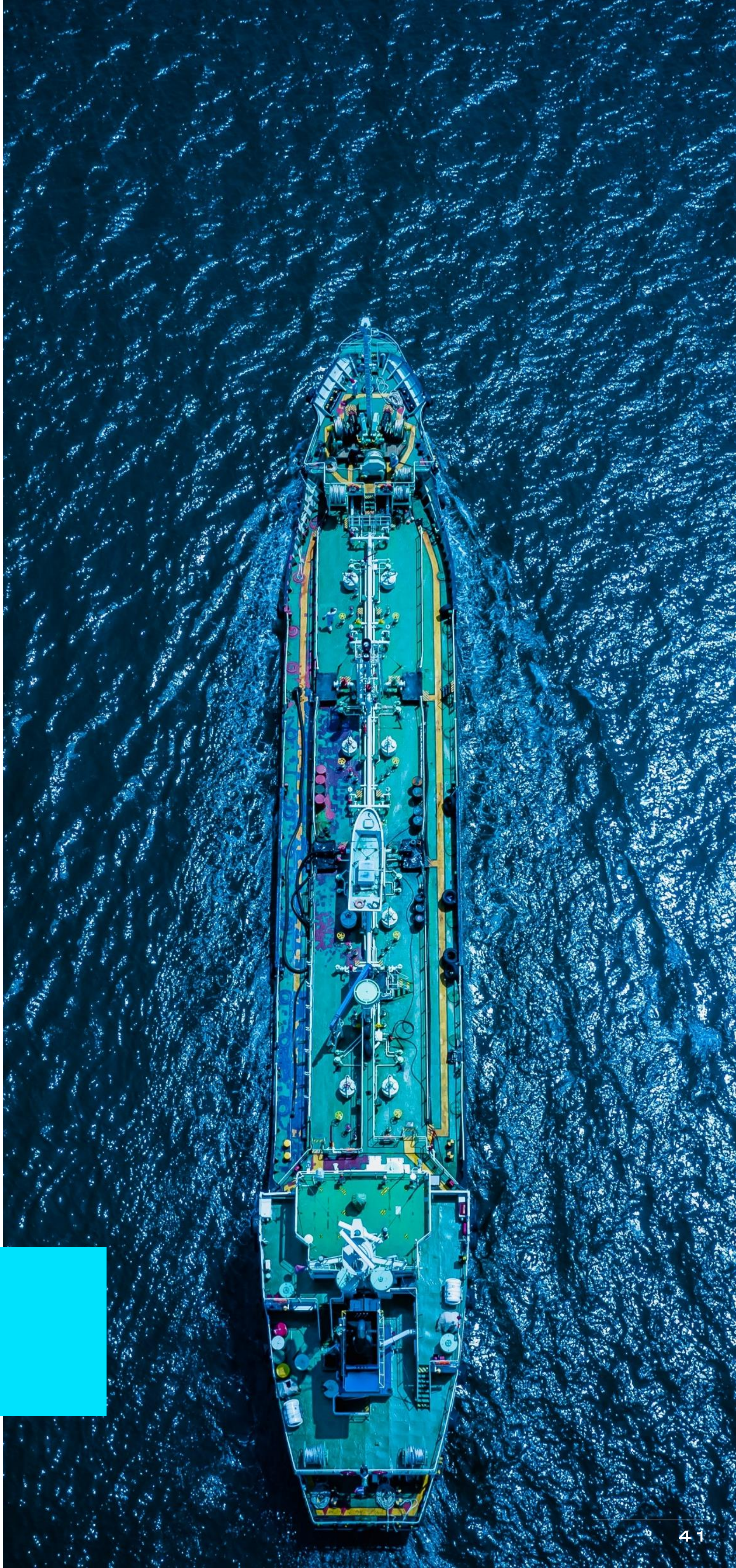
## WalkToWork

W2W vessels has been achieving favourable rates during the year. The demand for the work scope has been large, resulting in both subsea vessels and PSVs being utilized for this purpose as the purpose-built supply is limited. We currently count about 85 Tier 1 C/SOVs with over half being under construction. Regarding the CSOV, which is aimed at the commissioning of offshore wind farms, the majority is set to be delivered in 2025 and we still see few contracts being made for the vessels. For SOVs, there is a large active fleet, but very limited availability as the vast majority is on 10-year contracts, often towards a designated wind farm.

## 2024 Outlook

2023 has had both ups and downs when it comes to offshore wind, however, the fundamentals have grown stronger. In 2024, we expect a significant increase in projects coming live with close to 35 GW of capacity, almost a 6x from the 6 GW that went operational in 2023, however - this is projects mainly located in China. But the supply chain is always looking 2 years ahead, meaning the manufacturing, installation and commissioning for 2024 projects has or is already taking place. Looking towards 2025, we do see some serious traction in Europe, we therefore expect a busy supply chain and vessels being utilized in 2024 for these projects. We also believe that the number of FID's will go up significantly, finally starting to materialize projects. We also estimate that about 80 GW of capacity will be auctioned out in 2024 across 19 different countries, illustrating the comprehensiveness and the current global state of the offshore wind market.

# Chemicals



# Chemicals

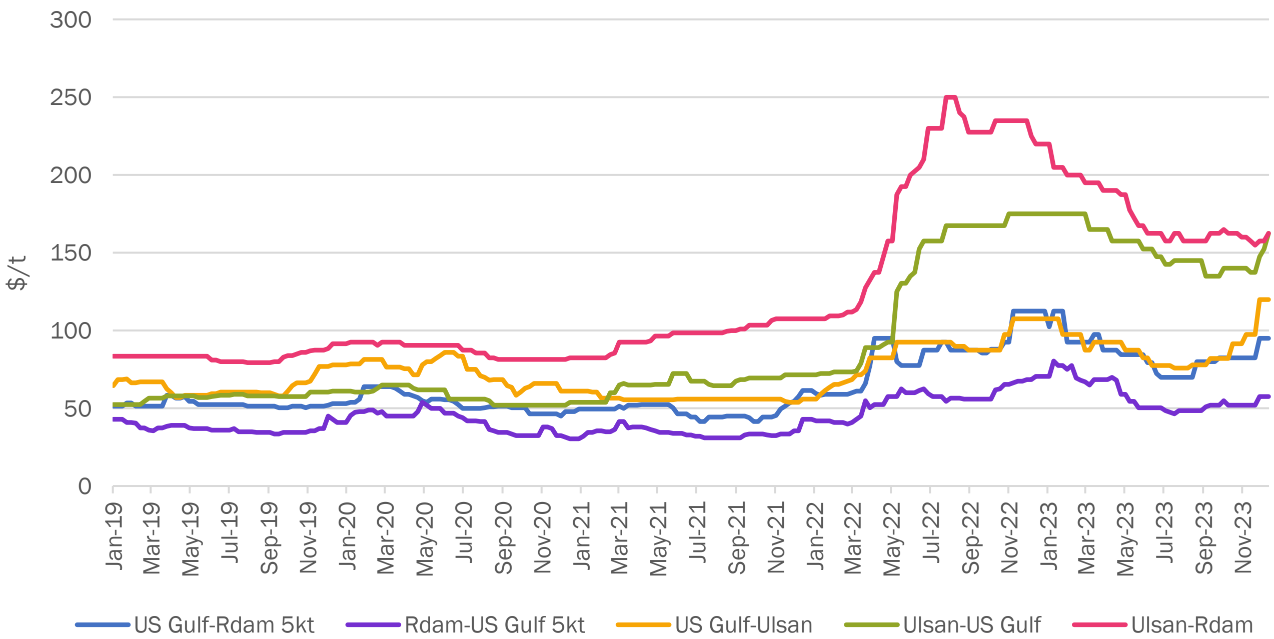
**Adrian Brown -**
Director, Chemicals

**Events in 2023 largely panned out as predicted in the Chemical Tanker market.**

The massive shocks to trade patterns from Covid and the Ukraine/Russia war had all been absorbed and the new global trade flows in chemicals and other specialised products were well established. It was a year in which the chemical industry came to terms with the true demand/supply picture for both chemicals themselves and that of the chemical tanker industry, with relatively few distortions from outside events.

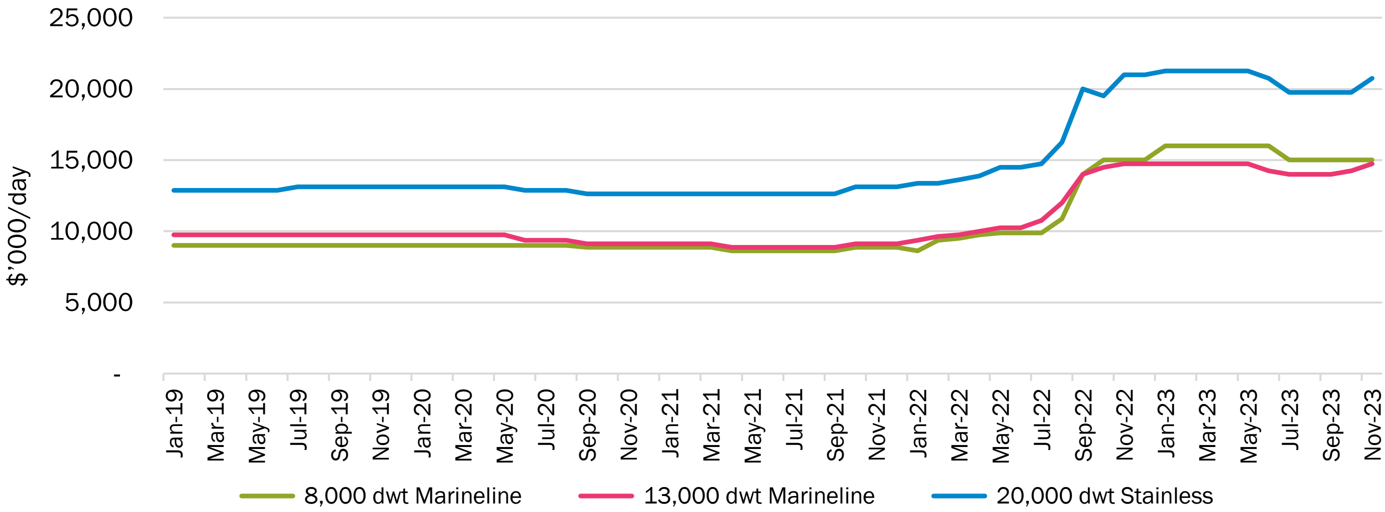
For the chemical industry itself, it was a difficult year, with reduced customer demand, resulting from the cost-of-living crisis and attempts by governments to curb inflation while simultaneously trying to avoid recession. It was very apparent that the industry was facing huge plant overcapacity and falling commodity prices, resulting in falling margins. Despite this, the chemical tanker market remained robust. COA renewals, which make up at least 50% of all chemical shipments were all achieved with sizeable increases over 2022. Spot freights in some sectors gradually declined through the year but remained ahead of pre-war levels, while other sectors produced even higher freights.

**Freight Rate Development - 5,000t Parcels Easy Chemicals**



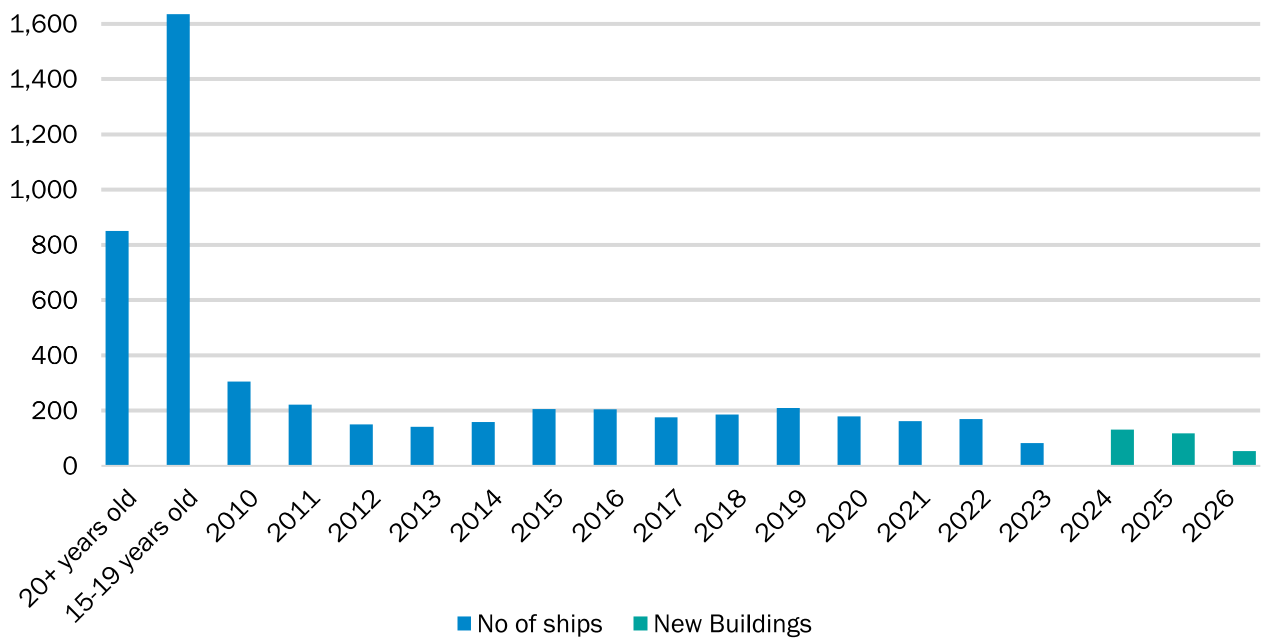
A shortage of tonnage, caused by a lack of investment in newbuildings over a very long period of time was the primary reason for the strong earnings reported by every chemical tanker owner. Even with fewer chemicals to transport and a lethargic CPP market, that was supposed to have bolstered chemical freights by removing Swing Tonnage, there was sufficient momentum in the chemical sector to sustain high rates for both contractual and spot shipments through 2023, which is reflected in the way that the T/C market developed.

## Chemical Tankers – T/C Development




Very few chemical tankers were sent for recycling this year, despite an aging fleet. Buoyant earnings created high demand for replacement tonnage, elevating second-hand prices for all chemical tankers, but especially those built less than 10 years ago. The number of newbuilding orders increased through the year, of which roughly a third are IMO-certified MR's, but continued uncertainty over the correct path to decarbonisation remains a limiting factor, as does the availability of shipyard slots, particularly for stainless tankers.

## The IMO- classified Chemical Tanker Fleet



## 2024 Outlook

2024 presents a number of challenges and opportunities. Inflation is falling in Europe and the US, but growth is stifled. China's economy, the powerhouse of chemicals, is weak, but India's is currently strong. If the Ukraine/Russia war persists, as seems likely, sanctions will remain in force and commodity flows will still be affected. The European petrochemical industry will remain under pressure from high energy costs and imports will continue, especially from the US and Asia. Another mild European winter however could be a welcome shot in the arm, helping to keep it competitive.

The greater use of next-generation biofuels in Europe is predicted to stimulate the import of feedstocks, particularly from Asia. Compared to 10 years ago, when there was roughly only 1 MR tanker/month carrying such a cargo, today there are typically closer to 10 MR's every month. Investigations continue about the legitimacy of these used cooking oil cargoes, but with palm oil use in Europe declining, they are a valuable cargo for Owners.

To achieve global decarbonisation goals, greater electrification of industry and transport will be needed and in turn, will require more copper for cabling and more battery components, all of which entail a greater amount of mining. Sulphuric acid will be needed in the process - and it is an acid that can only ship in stainless tanks, but the stainless fleet is aging fast.

Growth in the world population will see an ever-increasing demand for foodstuffs, including edible oils, but 2024 will be a challenging year for its production due to the effects of El Niño, with droughts in South America and the USA and the possibility of floods in SE.Asia. Finding new ways to supply edible oils to the market is a speciality of the chemical tanker market and already, there are new trade lanes opening up for its export out of Central America, Mediterranean and Baltic that did not exist 4 or 5 years ago.


To lower GHG emissions, the phasing out of the internal combustion engine in favour of EV's spells lower usage of conventional gasoline and components such as MTBE and ethanol that go into them. At present, biodiesel and other renewable fuels are the backbone of the European chemical tanker fleet. Removing them completely would devastate demand for coastal tankers, but in the short-term these trades will continue to grow, particularly with the distribution of imported cargoes and thereby, sustaining the current strength in European short-sea freights.

Further support to rates in the European coastal sector will be provided by the Black Sea trades, should the war there continue, with clean petroleum inbound and edible oil outbound. This trade has already absorbed a substantial amount of vessel space. Voyages are short in terms of distance, but long in terms of time taken. Rates are extremely high as an incentive.

The Palestine/Israel conflict has the possibility to expand. Iranian-backed Houthi rebels in Yemen have successfully demonstrated they can attack shipping as it passes through the Bab El Mandeb Strait. Almost all chemical tanker Owners have chosen to suspend sailings through the waterway, opting for the longer and therefore more expensive passage via Cape of Good Hope. Unless the conflict is resolved, space availability will start to tighten, but there is also a risk that the resulting higher freight costs could trigger yet another major change in global trade flows, akin to that which occurred at the outbreak of the Russia/Ukraine conflict. Already, cargoes to Europe and the Med that might otherwise have been shipped from the Middle East or Asia are being delivered from the US or internally within Europe.

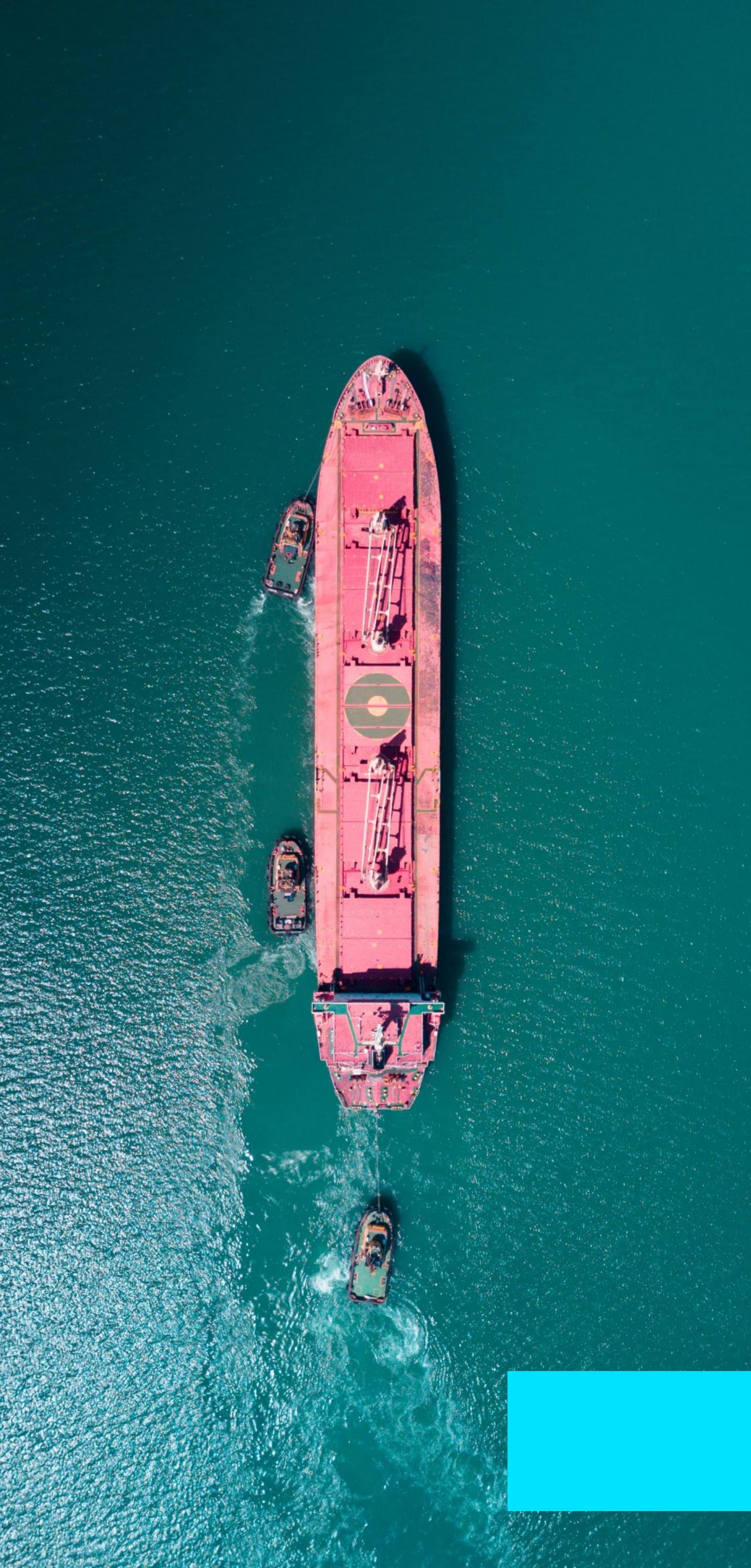
Over in Panama, a drought caused by El Niño has reduced the number of ships able to transit the canal per day and with long waiting times, many Owners had already decided to re-route their ships either via the Cape or via Suez. Either way, the voyages are longer and the costs greater. Any risk to Suez is therefore a threat to global trade patterns, especially against the backdrop of the drought in Panama which is likely to last well into 2024.

Environmental concerns are very high on the agenda and one of the measures taken to enforce lower emissions in Europe has been to extend the European Carbon Tax to include shipping. 2024 sees the introduction of the tax, with stricter targets every successive year. Until recently, there was much uncertainty as to how this would be introduced, who would be responsible and how much it was going to cost. Many Owners intend to adopt a practical approach, averaging out the cost to themselves for 2024 and applying that as a set amount, payable by the Charterer alongside freight. Typical assessments range from $2/t to $4/t for 2024.

As with 2023, developments in the CPP market will have a major impact on the chemical market in 2024. Homogenous cargoes, such as edible oil, molasses, UAN, ethanol, methanol, biofuels, caustic and MTBE are all vulnerable to predation from Swing Tonnage. Parcelling is less prone to attack as it requires more specialist knowledge and training, but there are still competent competitors who could make inroads, should the chemical market offer better returns than trading in CPP.

2024 is therefore set to be another interesting year. Actual developments within the chemical industry itself have less bearing on tonnage supply than might be envisaged. The industry must come to terms with the overcapacity that it brought upon itself, much as the chemical tanker industry had to face the consequences of over-ordering back in the early 2000's.

The chemical fleet is clearly aging and few new replacements will be delivered from the shipyards. Ostensibly, demand for chemical vessels will be governed in part by the global economy and whether it continues to avoid recession. For now, there is sufficient business to go around, which is why freights have been relatively strong all year. Any growth in demand will have to originate from the end consumer, but there are positive signs in the West that inflation will ease, and interest rates will come down which could encourage that consumer demand.



# Ship Finance

# Ship Finance

**Jarl Magnus Berge**
Global Co-Head of Finance

**Ali Susanto**
Global Co-Head of Finance

**The financing landscape for the shipping and offshore industries has undergone significant changes over the last 15 years.**

Before 2008, European banks were the dominate financiers within the maritime market. However, many of them have since exited the shipping sector or ceased operations altogether. This void has been filled by Chinese leasing companies, regional banks, alternative financiers, and ECA-backed financing.

The period post-2008 (prior to the Covid-19 pandemic) witnessed relatively constrained conditions in shipping and offshore markets, marked by restructurings and financial restrictions. However, the emergence of the Covid-19 pandemic and the Ukraine war led to unprecedented high charter rates and utilization in various shipping sectors. This enabled many shipping companies to significantly improve their balance sheets through increased cash flow from operations and the disposal of vessels at elevated asset values.

Despite the global significant increase in interest rates over the past two years, most shipowners have navigated the situation without significant challenges due to their relatively healthy balance sheets. Some owners have even chosen to pre-pay additional debt, considering the comparatively high absolute levels of interest rates in comparison to equity hurdles and alternative investment opportunities.

This new normal has posed a challenge for senior lenders and other sources of underlying finance as numerous capital providers have entered the ship financing market, attracted by the essential nature of the shipping industry. Capital providers must now redeploy capital while facing growing competition from traditional international shipping banks, regional banks, Chinese leasing companies, ECA-backed financing, credit funds (including ESG funds), tax leases, and other alternative sources.

Amidst increased liquidity, competition among financiers and stronger borrower balance sheets, margins on deals financed five years ago and refinanced in 2023 have seen reductions of up to 1.5%. Blue-chip clients are the focus of most competitive lenders, enjoying attractive commercial terms such as margin, profile, tenor and leverage, rather than exploring new clients, jurisdictions, structures, or niche segments. Nevertheless, there is a growing interest in financing smaller shipping companies.

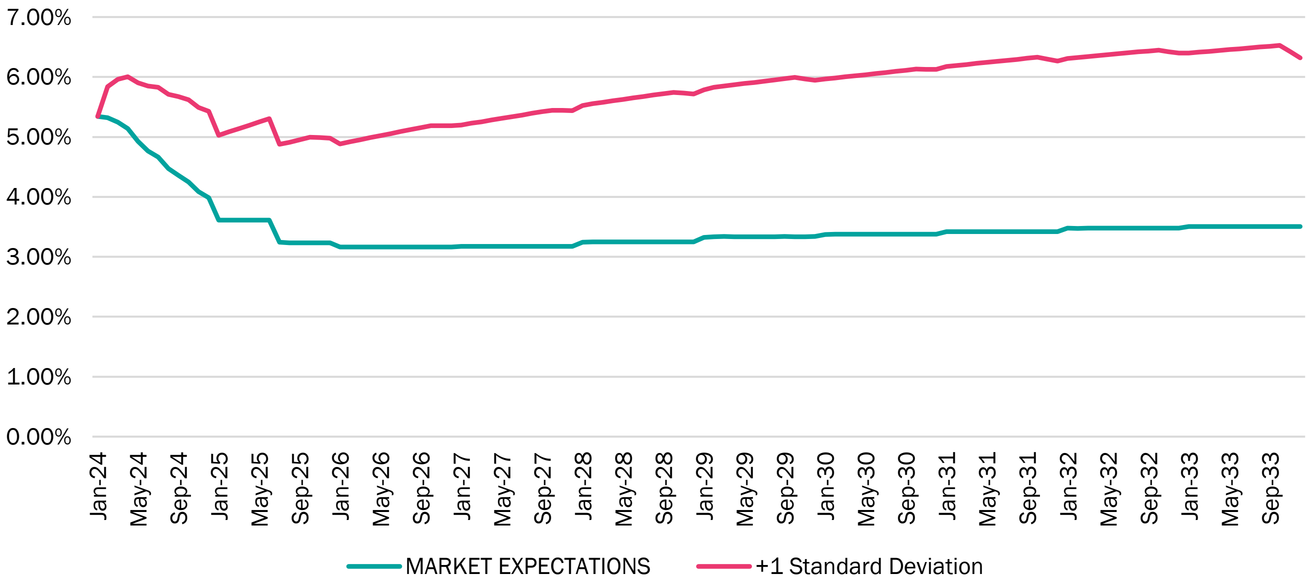
## 2024 Outlook

Looking ahead to 2024, while a few traditional shipping banks have re-entered the sector, their approach remains conservative in terms of asset type, time charter cover and counterparty credit status. Regional banks have increased their exposure to shipping and Chinese leasing companies continue to be reliable sources of financing. Liquidity is expected to be available for various shipping projects across different capital structures as we begin the new year.

Projects with an ESG focus will remain in demand as major lenders seek to reduce carbon footprints. However, the offshore oil & gas segment, as well as some crude markets, may be the exception, with banks likely to maintain a cautious approach due to past losses and ESG considerations. On the other hand, CSOVs designed for the offshore wind segment are considered attractive assets, with relationship banks extending competitive terms, with or without ECA backing, due to their green ESG profile and anticipated long-term growth.

Regarding interest rates, the recent unprecedented increase witnessed over the last year is expected to reverse as the market remains poised for a series of rate reductions during 2024 as inflationary pressures have showed signs of abating (see SOFR Term forward curev, Fig. 1). However, concerns arise about the potential consequences of uncontrolled deficit spending by developed governments and the indicated rate cuts, particularly in the context of the US government's substantial debt balance reaching USD 34 trillion by the end of 2023 and whether these kinds of levels can be rolled over on continuous basis without effecting expectations for shorter and longer-term interest rates.

## Fig 1. 1-Mth Term SOFR Forward Curve (5 Yrs)




Source: Pensford.com/resources/forward-curve (4 Jan 2023); curve being derived SOFR Futures and Swap rates using the 'bootstrapping' process

In conclusion, the shipping and offshore financing industry is characterized by fragmentation, with diverse sources of liquidity for different assets and situations. With SSY Finance's global coverage and extensive experience, we are well-positioned to connect clients with the right financiers and capital providers, irrespective of market conditions.

# Japan

# Japan

**Eugene Quek –**
Partner & Head of Projects (Japan)

**The world has survived the widely anticipated recession in 2023. We expect the 'soft landing' narrative to take hold as inflation continues its downward trend towards central bank targets.**

The mega driver for 2024 that will affect global trade relations will be the elections around the world. Heading into 2024, we expect the Japanese market to experience strong headwinds, amid:

- A fluid geopolitical backdrop, ongoing wars and canal disruptions
- The BOJ's challenge to balance interest rates policies with inflation and its depreciating currency
- A decarbonization shift towards building a more sustainable world
- A shrinking labour force coupled with a fast evolving technological space

With the uncertainties created by these factors, 'volatility' shall remain the main theme for the shipping markets next year. Whilst volatility presents its set of challenges, it is certainly not all doom-and-gloom as we believe it could offer more opportunities to the Japanese market, compared to the rest of the world.

This is a pivotal year for the corporate markets in Japan. More so than the rest of its Western peers, all eyes have been on the Japanese corporates as its share markets rally hitting its three-decade highs. As the yen stays weak, the positive sentiment should stick in 2024 as foreign investors turn more bullish towards Japan in the absence of alternatives in the global markets and undervalued companies should continue to attract foreign investments. The banking/finance sector is a big contributor to this mix and being a major growth driver for the domestic shipping markets, the consistent financing access will create a conducive space to boost ship investments going forward.

The era of "Abenomics" (2012-2020) has laid the foundation for a higher inflation environment to stimulate investment and support economic growth. Though a bitter pill to swallow, a higher inflation is what Japan needs to break free from the two lost decades prior to "Abenomics" to drive the nation into a positive economic growth environment. Given the BOJ's reluctance to raise interest rates in 2023, we expect any monetary policy intervention in the upcoming year to remain muted and limited to just one or two low hike(s) in 2024. Inflation shall therefore be structurally higher in 2024 as long as the wage increase targets can be achieved, which should result in real asset values and shipping cash flows to rise.

In the same vein, we do not expect the low US dollar interest rate enjoyed in the past decade to return anytime soon and this will continue to put pressure on financing costs for asset acquisitions by shipowners.

Whilst current asset valuations have thus far priced this in, there is more room for values to go higher given the backdrop of supply constraints faced by the ship construction business in Japan. We maintain our view of an upward trend for newbuilding vessel prices across the more attractive segments for gas, wet, car-carriers and a modest increase even for dry, that have shown strong resilience in 2023 despite a weaker physical market.

It is also worth noting that Japanese shipping firms have traditionally been operating in a high leverage environment due to low interest rates. Given the historically high entry level for newbuildings and modern assets and a costlier refinancing climate this year, there is a shift towards reallocating excess equity towards reducing debt. Companies are therefore having a much stronger balance sheet position entering into 2024. The shipping sector will be much more agile to adjust and navigate the volatile market and capture the right timing for new investments.

“The shipping sector will be much more agile to adjust and navigate the volatile market and capture the right timing for new investments.”

Throughout the year, dry shipowners have kept a nervous “wait-and-see” attitude when it comes to investing in newbuildings. This has put a lid on things, but newbuilding values have remained historically high, despite a weaker physical market for the dry sector (compared to the past 2 years), which is the main sector that most Japanese tonnage providers operate in. We expect there to be more newbuilding activity from Japan next year as investors turn towards accepting the “higher-for-much-longer” newbuilding price narrative should the physical market improve over a sustained period. Newbuilding slots available at the major shipyards are well past 2026 by now and there will be minimal impact any ordering has to the spot market in the coming year. This is good cause for optimism as the dry orderbook has remained subdued for next year.

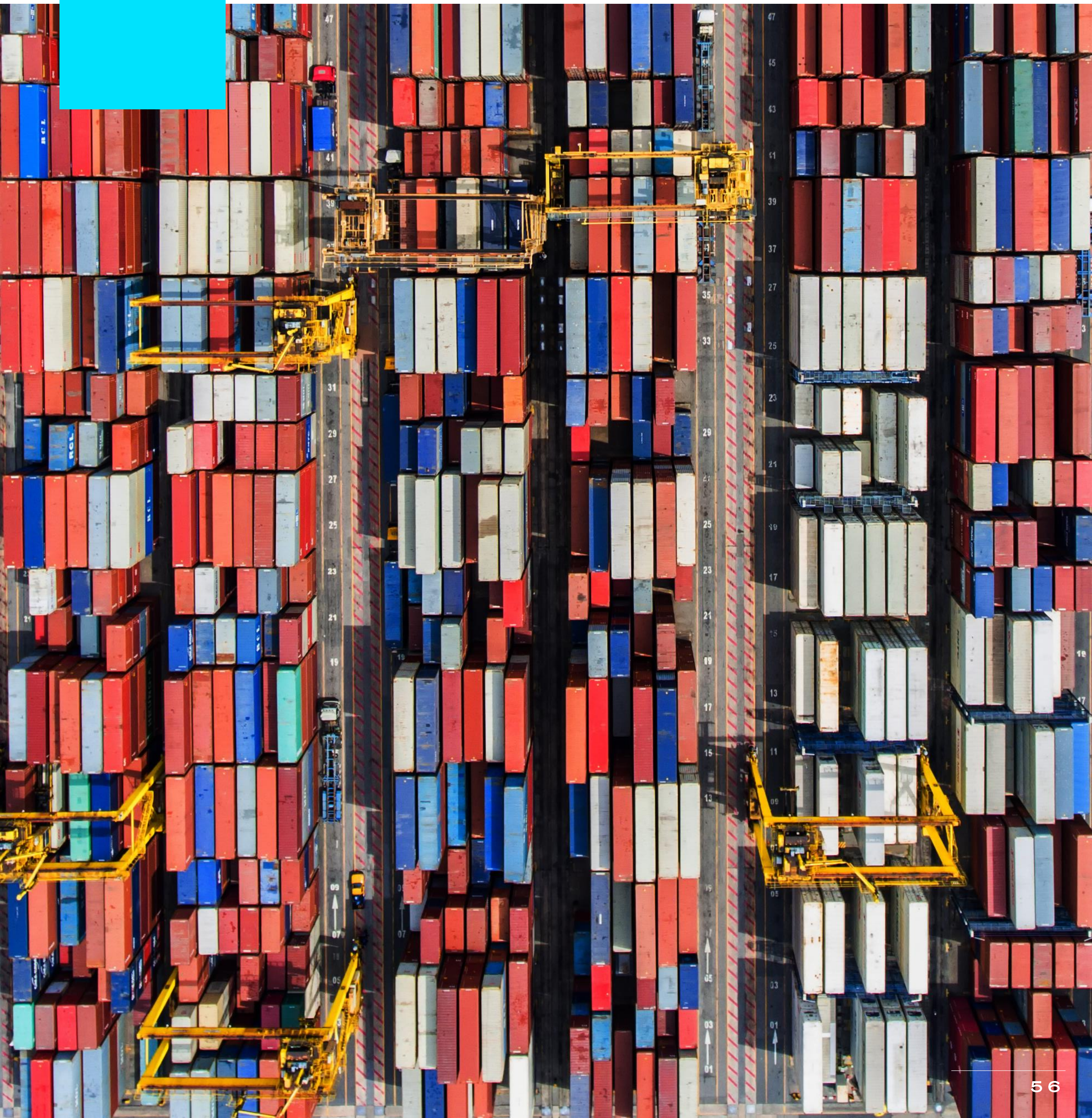
Particularly in 2023, the belief that companies in shipping markets will start to adapt to changes necessary to build a more sustainable environment has turned into a reality. We witnessed moves by industrial cargo players, shipowners and shipyards to take a leap of faith as first movers into unchartered waters for alternative fuels. The systematic force of low carbon transition will continue to put pressure on the domestic market to innovate at a much quicker pace than ever. This will no doubt add costs to the shipping value chain – take alternative fuel propulsion for instance, which has been adding substantial premium to asset prices. We believe that as shipping is a fundamentally demand-driven market, these costs will eventually trickle down to the masses who will end up footing a large chunk of the green bill. We should see a gradual escalation in freight rates/costs as the transitional and next generation fuel sources start to take shape beyond the "first-mover-pays" landscape. We do believe that the fundamental rules of the game will not change – the overall health of the shipping community will need to be stable to determine the trajectory of sustainable shipping in Japan.

Labour shortage, has been the main theme in 2023 for the Japanese shipping community. On top of its aging population, foreign companies affected by China and US geopolitical tensions have started to look to Japan to “reshore” their supply chain out of China. Whilst this could continue to benefit Japan’s strategic position as a bridge between the East to the West and support economic growth in Japan, it adds further strain to the domestic labour pool availability for shipping. We do see however, that this labour shortage pressure should propel the development of new ways of doing things via technology in 2024. This should give the shipping markets its competitive edge in the long run, as it can drive stark improvements in productivity - particularly in the vessel construction business. It will be difficult in the beginning to devote more capital to innovate but this should eventually combat labour costs and constraints in the long run, which is fast becoming a major issue for shipping companies in Japan.

Uncertainty and volatility are unsettling. We believe Japanese shipping companies will need to take measured risk by aiming for higher longer-term returns as the near-term earnings start to look less attractive in 2024. It is important now, more so than ever, for owners to diversify not just across different asset types, but also across vintages in the modern asset space to reduce their residual exposure. In an ideal situation, we believe tonnage providers should focus on quality for counterparts as we observe charter tenures starting to get longer to match required project returns attributable by higher newbuilding prices.

Finally, and unlike twelve months ago, shipping market players across the board are somewhat downbeat about what lies ahead. Whilst this is not a good enough reason to downplay the risks ahead, it does leave plenty of room for positive surprises if the market turns out to perform better than what we expected.

# Derivatives

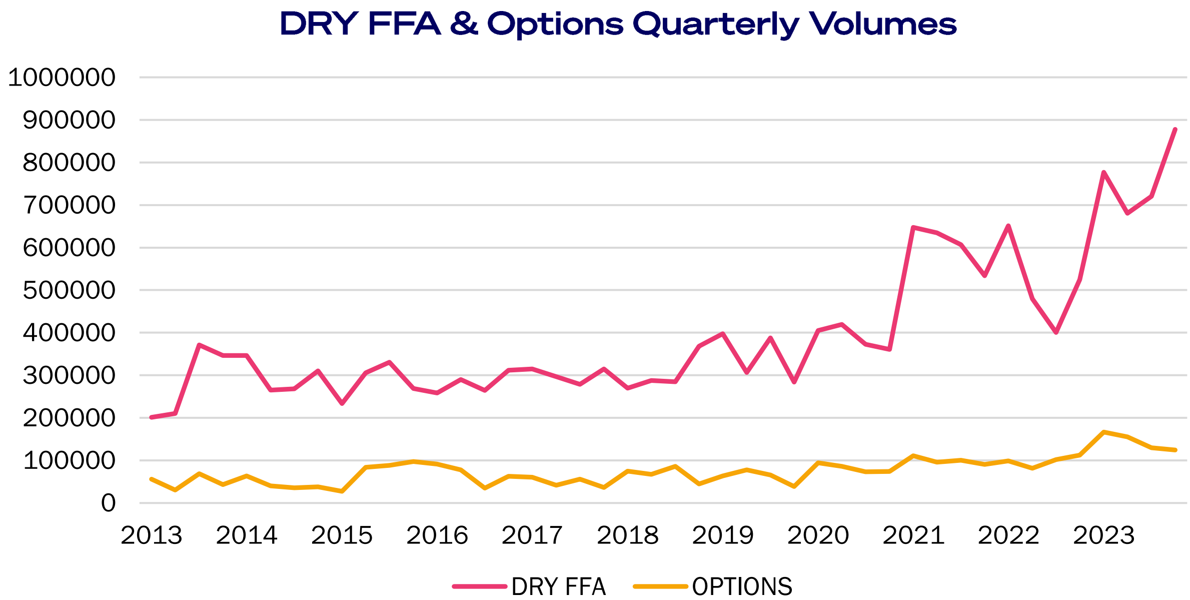


# Derivatives

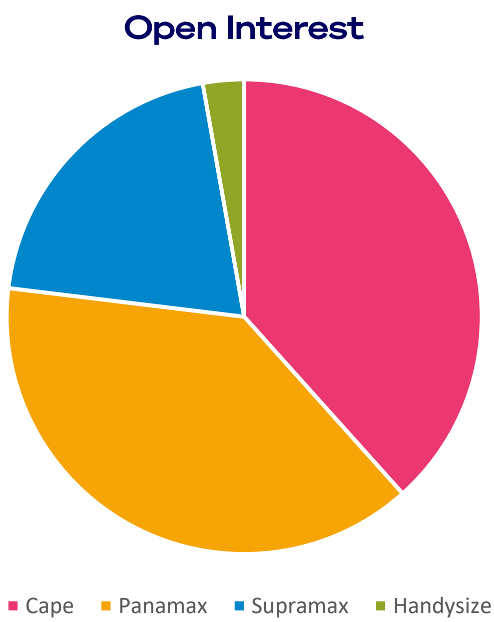
**Duncan Dunn -**
Senior Director, Derivatives

## Dry Forward Freight Agreements

The size of the Dry Bulk FFA market has been remarked on since its inception. Usually with industry experts giving confident predictions of further growth year on year. 2023 didn't disappoint in this respect as illustrated by the chart below. This uses my preferred format to demonstrate growth, plotting quarterly volume in lots traded. One lot being one day of time charter equivalent.




Options (in the lower yellow line) are on a course of steady growth, however the FFA market is heading off the chart, with a cumulative total of over three million lots traded in the course of last year. Roughly speaking, this is around 8,500 years of time charter cover, against a current fleet of around 12,500 applicable bulk carriers. Looking at this progression over the past 20 years, the growth of the FFA market by around three times, is quite clearly supported by the underlying growth of the Dry Bulk fleet. This is especially so in the Cape and Panamax market but we are again, struck by the strong growth in the Supramax FFA market and see the Handysize also steadily building. As illustrated in the chart (right) showing open interest by market share



## 2024 Outlook

Looking ahead at 2024, it seems likely that this growth will be sustained, as although the time charter markets are looking relatively restrained in comparison to the past two years, the forward curves are illustrating a market where participants may well want to use FFAs, to capture the value in the curve as and when it presents itself and market participants will increasingly need to compete within the derivative markets to support their underlying strategy.

### Panamax 5TC Index – 16th Jan '24


### Panamax '74 4TC – 16th Jan '24

| Period | Bid | Offer | Change |
|---|---|---|---|
| Jan 24 | 12,150 | 12,350 | 400 |
| Feb 24 | 12,100 | 12,200 | 375 |
| Mar 24 | 14,000 | 14,200 | 300 |
| Q1 24 | 12,750 | 12,900 | 375 |
| Q2 24 | 14,600 | 14,750 | 425 |
| Q3 24 | 13,900 | 14,150 | 475 |
| Cal 24 | 13,700 | 13,850 | 425 |
| Cal 25 | 12,100 | 12,250 | 200 |
| Cal 26 | 11,850 | 12,000 | 175 |
| Cal 27 | 11,750 | 12,000 | 125 |

Looking at the Panamax rates for 2024 to date versus the two previous years and the current forward curve (basis 16th January), both seasonal and longer-term opportunities are available.

SSY Futures has been evolving since inception and is now so much more than just an FFA broker. The edge our freight expertise brings has helped us establish our presence in other growing derivatives markets, especially where transportation, relative location and specialist knowledge on freight costs confer a quantifiable advantage.

This continues to be the case in the iron ore, coking coal and steel markets, where we have been established for over a decade now and in the highly specialist delivery premiums market operating around LME warehouses. We have expanded from this beginning into the underlying base metals markets. More recently we have also expanded into Battery Materials - a fast moving and important new market, as well as the soft commodities markets for grains and cocoa, coffee and sugar, where again our dry bulk heritage brings significant value to clients looking for added value and additional perspectives.

As SSY expands its derivatives business and our research offering broadens to cover this, both in data and qualitative terms, we feel confident that this combination of focused and precise execution and research, informed by our global shipping expertise will be increasingly compelling.

## Trading Ranges & Volumes for 18 Jan '24

| Iron Ore TSI Total Volume = 5,925,700 | | | | | | | |
|---|---|---|---|---|---|---|---|
| | Range | VWAP | Vol | Spread | Mkt % | No. | Avg Size |
| 24-Jan | 131.6 - 134 | 133.2 | 534000 | 2.4 | 7.9 | 35 | 15257 |
| 24-Feb | 125 - 129.85 | 128.19 | 1626500 | 4.85 | 24.1 | 129 | 12608 |
| Feb+Mar 24 | 127 | 127 | 90000 | 0 | 1.3 | 2 | 45000 |
| 24-Mar | 123.15 - 128 | 126.53 | 1065300 | 4.85 | 15.8 | 53 | 20100 |
| Q1 24 | 127.25 - 130.1 | 128.94 | 510000 | 2.85 | 7.6 | 23 | 22173 |
| Feb-Apr 24 | 125.75 - 127.75 | 126.17 | 159000 | 2 | 2.4 | 6 | 26500 |
| 24-Apr | 122.6 - 126.3 | 124.96 | 535000 | 3.7 | 7.9 | 26 | 20576 |
| 24-May | 120.6 - 123.8 | 122.48 | 164700 | 3.2 | 2.4 | 15 | 10980 |
| 24-Jun | 119 - 123 | 120.65 | 91500 | 4 | 1.4 | 5 | 18300 |
| Q2 24 | 120.35 - 124.3 | 123.69 | 903000 | 3.95 | 13.4 | 13 | 69461 |
| 24-Sep | 117.1 - 117.3 | 117.2 | 20000 | 0.2 | 0.3 | 3 | 6666 |
| Q3 24 | 117.1 - 119.5 | 119.18 | 795000 | 2.4 | 11.8 | 7 | 113571 |
| Q4 24 | 111 - 114.25 | 112.19 | 165000 | 3.25 | 2.4 | 6 | 27500 |
| Q3 25 | 101 | 101 | 60000 | 0 | 0.9 | 2 | 30000 |
| Cal 26 | 97 | 97 | 12000 | 0 | 0.2 | 1 | 12000 |
| Cal 27 | 89.5 | 89.5 | 12000 | 0 | 0.2 | 1 | 12000 |

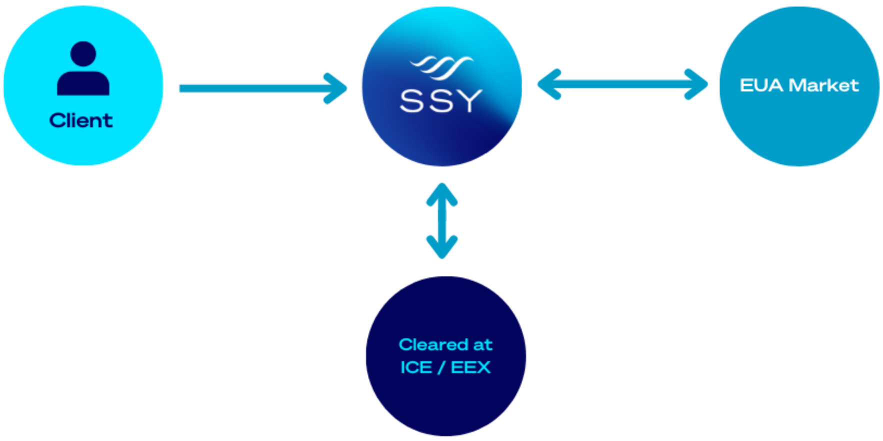
## Iron Ore TSI: March '24 Contract


The extract above is from an online resource accessible for SSY customers, giving digital analytics on Iron Ore Futures Markets.

Our carbon calculator is available online for SSY customers. Another benefit of our joined-up strategy for freight and commodities, which is increasingly integrating the market for EU Allowances.

# EU ETS Access

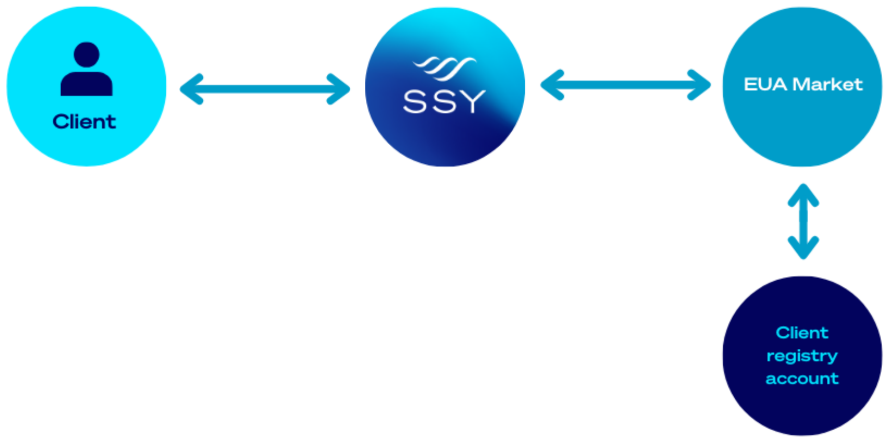
## Route 1: Access to EUA Derivatives using Intercontinental Exchange (ICE) or European Energy Exchange (EEX) *Clearing account required



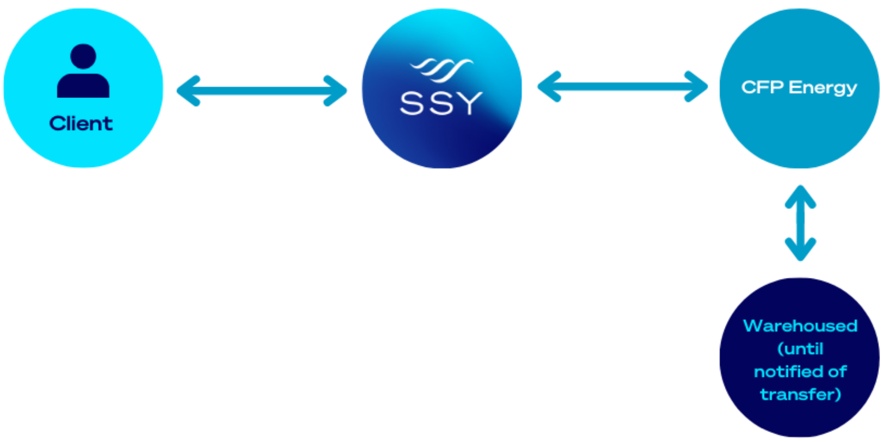

- Client instructs SSY of EUA requirement
- SSY sources EUA prices from extensive market network
- Client and SSY agree price and volume
- Trade given up for clearing on Exchange

## Route 2: Access to market via OTC Physical Market *Registry account required

- Client instructs SSY of EUA requirement
- SSY sources EUA prices from extensive market network
- Client and SSY agree price and volume
- EUAs transferred to client registry account



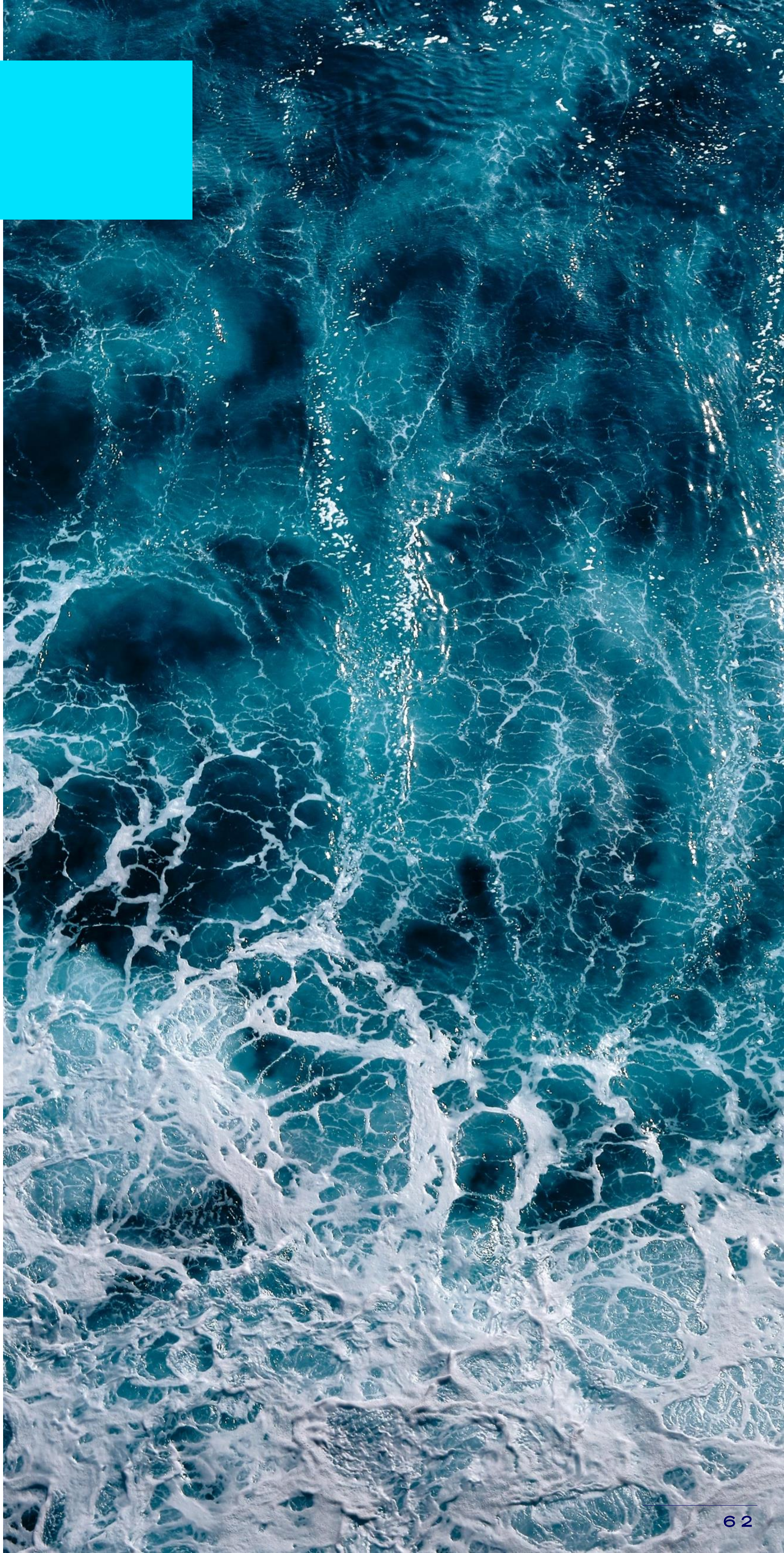

## Route 3: Access via CFP Energy for procurement and warehousing




- Client instructs SSY of EUA requirement
- Client agrees market price and volume with SSY
- SSY use strategic partnership with CFP Energy for market access and warehousing facility

We hope that you've enjoyed this look at how SSY Futures is developing its service for 2024 and we look forward to working with you in the year ahead.

# Decarbonisation



# Decarbonisation

**The decarbonisation juggernaut moved forward on many fronts over the past year, with carbon intensity regulations from the IMO taking effect while new decarbonisation regulations have been introduced by both the IMO and EU.**

At the same time, more and more companies are adopting decarbonisation strategies and commitments. For ship owners this includes complex decision making on the adoption of zero or low carbon fuels in their new building decisions.

**Alastair Stevenson**
Head of Digital Analysis

## IMO

In July 2023 the IMO formally adopted it's Greenhouse Gas (GHG) Strategy, replacing the interim strategy adopted in 2018. The strategy considerably accelerates the IMO's original decarbonisation goals, while pursuing a 'just and equitable' decarbonisation transition.

The IMO is now targeting a 2050 net zero carbon emissions goal, which includes interim 2030 and 2040 milestone targets. Additionally, the strategy also targets the uptake of zero or near-zero technologies / energy by 5% of the fleet (10% target) by 2030. Earlier interim strategy initiatives to reduce the carbon intensity (EEDI/EEXI/CII) of shipping remain, though the IMO will begin to review these metrics this year.

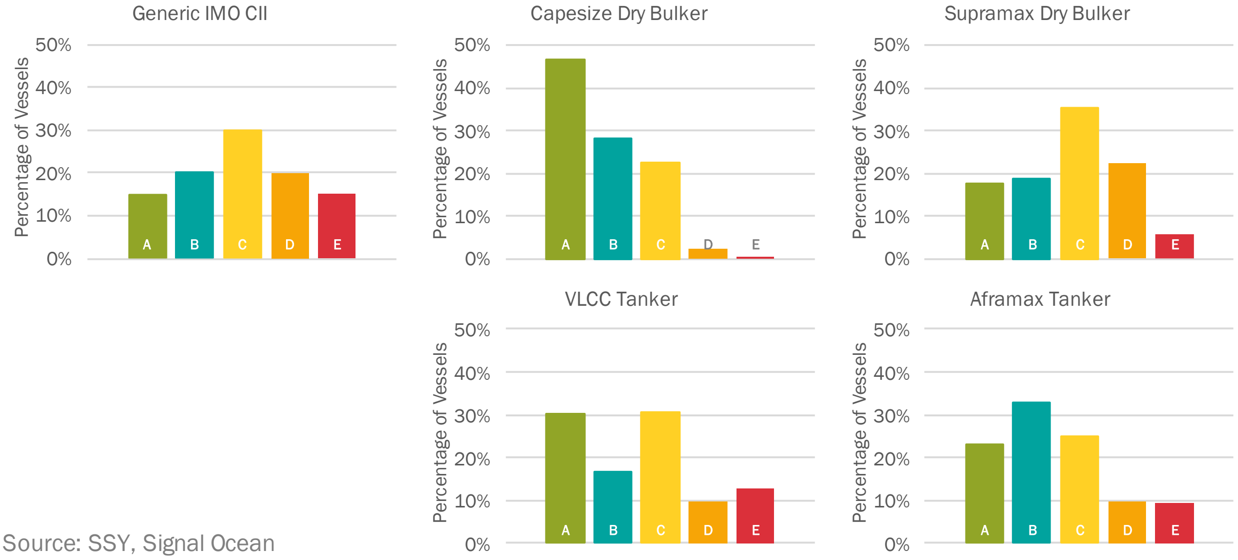
The IMO has also moved towards measuring GHG reductions on a lifecycle "well-to-wake" basis instead of a "tank-to-wake basis". Vessel "tank-to-wake" emissions reflect the combustion for fossil fuels onboard the vessel, while "well-to-wake" emissions also include emissions associated with the extraction or production, refinement, and distribution of these fuels prior to vessel bunkering. IMO expert working groups are now tasked with examining well-to-tank emissions, which will help ensure that zero or low carbon fuels haven't been supplied through heavily carbon emitting processes (green fuel vs. brown fuel).

UMAS research suggests that the IMO GHG strategy is close to achieving the IPCC 1.5°C 2030 goals and could meet these goals if further initiatives are adopted. UMAS also points out that the existing carbon intensity measures (EEXI/CII) are not sufficient to achieve the IMO's 2030 GHG reduction.

Nevertheless, the IMO will welcome the disproportionate number of vessels destined to achieve CII ratings of A, B or C ratings in 2023 as evidence that the carbon intensity regulations are having tangible results. SSY's analysis has shown that much of the improvement is a result of: (1) slower average speeds, relative to baseline years, as a result of weaker market returns, (2) lower global vessel congestion (especially in China), (3) the cumulative effect of larger and more efficient new vessels, and not least (4) amendments to the CII agreed by the IMO in mid-2022 (MEPC 79). Though a beneficiary, decarbonisation objectives have not been at the forefront of this decision making.

## 2023 CII Ratings

### Selected 2023 CII ratings by fleet vs. IMO CII regulation documentation




Source: SSY, Signal Ocean

Undoubtedly these factors will be considered by the IMO as it commences its first review of its carbon intensity regulations (EEXI/CII) later this year. Understandably the metric has been subject to some fierce criticism by ship owners regarding its limitations as an accurate gauge of operational performance.

Again, the IMO has delayed its discussion of economic measures to help address GFG emission reductions. This reflects unresolved discussions not only on the best economic measures to introduction (levy, carbon tax etc) but also how this revenue would be collected and distributed. There are no assurances that these will be solved before MEPC81.

There is no question that the IMO's decarbonisation goals are ambitious, especially given the continuing expansion in world trade that is, mostly, fossil fuelled. However, the roadmap to achieving the IMO's goals is less clear. This has led to an ad hoc company-level approach to decarbonisation though some initiatives, such as the Green Corridors Initiative suggested at COP2X, merit greater consideration. The Green Corridor Initiative aims to decarbonise large trade routes where the economies of scale minimise the decarbonisation costs. This picks up on the IPCC's adoption of 'common but differentiated' national decarbonisation responsibilities and reflects the 'just and equitable' transition mooted by the IMO.

## EU

The maritime-related initiatives embodied within the EU Commission's #Fitfor55 initiative, announced in mid-2021, moved forward in 2023. Firstly there was the confirmation, in May, that shipping would be included in the EU's cap and trade Emission Trading System (ETS) from 2024 and then subsequently, in July, that the FuelEU Maritime Initiative would take effect from 2026. The EU's actions are, to some degree, a response to the slow pace of change at the IMO.

At current EUA prices, close to €60/EUA(t), the cost of offsetting emissions for the maritime sector will be close to \$2bn during the initial 2024 phase in, scaling up to \$5.5bn when fully implemented in 2026. These are estimates since they are based on emissions reports collected by the EU MRV since 2018, discounted by SSY's AIS-based analysis of international voyages. Our analysis suggests c.88mt of 2024 maritime emissions, which discounted for the phase-in would require c.35m EUAs purchased as offsets. Historical EU MRV emissions with and without SSY's international voyage estimate are shown in the following table.

| EU MRV | 2018 | | 2019 | | 2020 | | 2021* | | 2022* | |
|---|---|---|---|---|---|---|---|---|---|---|
| | mt | % | mt | % | mt | % | mt | % | mt | % |
| Bulkers | 26.7 | 19% | 25.5 | 17% | 22.8 | 18% | 23.9 | 19% | 24.8 | 19% |
| Tankers | 28.3 | 20% | 40.8 | 28% | 38.8 | 30% | 33.8 | 27% | 38.7 | 29% |
| LNG / Gas | 8.7 | 6% | 11.1 | 8% | 10.8 | 8% | 8.7 | 7% | 13.5 | 10% |
| Containers | 46.5 | 32% | 46.2 | 31% | 43.0 | 33% | 41.9 | 34% | 38.7 | 29% |
| Other | 34.0 | 24% | 23.1 | 16% | 13.3 | 10% | 16.6 | 13% | 17.7 | 13% |
| **EU C02** | **144.2** | | **146.7** | | **128.7** | | **125.0** | | **133.3** | |
| **@50% Int'l Voy** | **91.0** | 63% | **93.0** | 63% | **81.0** | 63% | **80.0** | 64% | **87.0** | 65% |

*UK Excluded. Source.EU COMMISSION, SSY

EU receipts will be based on the additional 78m EUA allowances that will be auctioned into the system during 2024 to accommodate the inclusion of the maritime sector. This will generate $6.6bn in 2024, at current EUA prices. Revenue in future years will depend on EUA prices and the number of auctioned allowances.

While the revenue prospects are impressive, the expected reductions in CO2 emissions are meagre in comparison. Certainly, a small proportion of the funds are earmarked towards EU decarbonisation programmes, but SSY's analysis suggests that the inclusion of shipping in the EU ETS will have very little effect on trade flows, vessel speeds, fuel choice and, not least, CO2 emissions. While there will be some isolated changes at the fringe, we expect 2024 EU MRV reported CO2 emissions to be much like 2023 and 2022. This makes sense in economic parlance because the marginal cost of maritime emissions abatement is multiples above other EU ETS affected industries.

The FuelEU Maritime initiative aims to boost demand for zero and low carbon fuel by setting a limit on the GHG content of ship bunkers, beginning in 2025 and ratcheting tighter over time. Vessels that don't comply, will pay a penalty that is halved on international voyages. Initial analysis suggests that most vessel burning fuel oil will be non-compliant, but only face modest 2025 penalties. However, as the targets ratchet up, the penalties may become prohibitively expensive for all fossil fuelled by 2040.

In terms of actually reducing EU maritime emissions, introducing a simple speed limit on vessels in EU waters would probably be more effective, though lacking any revenue benefits.

This raises the spectre that the successful inclusion of shipping in the EU ETS may be viewed by other jurisdictions as an attractive revenue generating option – especially if the IMO fails to agree to economic measures at MEPC 81 this spring. Consider a scenario where Panama, Egypt and Turkey incorporate CO2 offsetting on passages through their jurisdictions! While introduced under the auspices of decarbonisation, ultimately these measures increase the cost of trade and circumvent WTO agreements: the environmental tariffs of the 21st century trade.

While the inclusion of shipping in the EU ETS has been the focus of the maritime industry in 2023, expect the FuelEU Maritime initiative to attract similar attention as we move through 2024. This attention is likely to focus on the credits for burning low or zero carbon fuels which, for a single vessel, have the potential under the regulation's GHG averaging to offset penalties for multiple HFO fuelled vessels.

SSY

Experience Matters.

## About SSY

Established in 1880, SSY has grown to become one of the biggest and most trusted names in broking, operating around the world via its 24 local offices. Our 500 experts cover a range of major markets including Dry Cargo, Tankers, Derivatives, LNG, Sale and Purchase, Offshore, Chemicals, Towage and Ship Finance.

SSY has a global reach with offices in Athens, Copenhagen, Dubai, Geneva, Genoa, Hamburg, Hong Kong, Houston, Kristiansand, London, Madrid, Mumbai, New York, Oslo, Rio, Seoul, Shanghai, Singapore, Stamford-USA, Sydney, Tokyo, Vancouver, Varna, Zug.

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