

New bunker fuel price record

In issue 547 of the *Sunday Spotlight*, we analysed the development in fuel prices (published by Ship&Bunker), as they have been on a constant upwards pressure in recent months.

Looking at the IFO380 fuel prices, the current bunker fuel price environment has basically reverted back to the same level as the highpoint of late 2018, but still much lower than the higher plateau seen in 2011-2014. However, the IMO2020 rules meant a change to Very Low Sulphur Fuel Oil (VLSFO) from January 2020, and a price index for VLSFO had to be created.

At the start, the VLSFO price spiked due to early distribution and availability issues of VLSFO, reaching a height of 686.50 USD/ton. The recent increases have however led to a new record level. On January 14th, the price set a new record of 694 USD/ton. This means that not only are VLSFO prices now in record territory, but it also means that for the 70.5% of vessel capacity which is not equipped with scrubbers, we are now in a situation equal to the high oil-price environment of 2011-2014. Given the split in the fleet, where 29.5% of the capacity does indeed have scrubbers, and hence can use IFO380, the spread in pricing between the two fuel types is also important.

Fig.1: Low-sulphur price premium (Global)

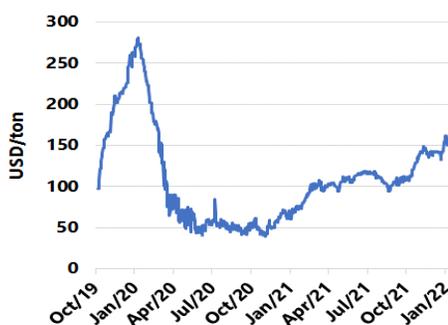


Figure 1 shows the development in this spread between IFO380 and VLSFO. Even though VLSFO prices are at a new record, the spread in pricing is not at such a record. This means that the previous pricing spike was clearly driven by specific supply issues in the bunkering locations, whereas the price spike now is underpinned by a stronger oil price in itself. This also means that the rapid decline in VLSFO pricing in February 2020 was due to alleviation of

such physical supply issues – which in turn means we should not expect a similar rapid decline this time, as any potential decline would have to come from global oil prices.

In the near term, shippers need to prepare for more increases in bunker surcharges, simply owing to the fact that such BAF formulas are linked to VLSFO prices – and that these are now at record levels.

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