Destination in sight

New price assessments from S&P Global Platts have brought transparency to the 0.5% sulfur bunker market – a full year before the IMO's lower sulfur limit comes into effect.

Rajesh Nair
Managing Editor
Asia & Middle East Residual Oil
S&P Global Platts

John Morley
Managing Editor, Fuel Oil
S&P Global Platts

Patrick Burns
Senior Editor, Americas Residual Fuel
S&P Global Platts

S&P Global Platts launched a suite of new daily assessments for cargoes and barges of marine fuel with a maximum sulfur limit of 0.5% across the globe starting January 2, 2019, laying important groundwork for plans to launch bunker assessments for the grade from July 1, 2019.

The launch of cargo and barge assessments came 12 months ahead of the IMO's new global sulfur limit – in response to strong demand from market participants around the world for visibility into how this new fuel will be valued by the market.

The industry has reacted positively to receiving price information well before the 2020 deadline – on the very first day of assessing the market, S&P Global Platts published bids and offers for the new grade of fuel in the Singapore market.

S&P Global Platts received feedback from a cross-section of stakeholders including refiners, shipowners, physical suppliers, traders, exchanges, government agencies, brokers, storage terminal owner/operators and utility companies. Following an extensive consultation, on March 26, 2018, the methodology and specifications were announced for the cargo assessments to be launched at the start of 2019.

The new cargo and barge assessments are named "Marine Fuel 0.5%," and are being published for product loading from the key hubs of Singapore, Fujairah, Rotterdam, Houston and New York Harbor.

The new assessments reflect specifications for RMG fuels as defined by the International Organization for Standardization (ISO) 8217:2010 specifications, but with a sulfur cap of 0.5%. There has been widespread debate and varied views over how fuel producers will meet this new spec, and the route chosen to meet the spec would have a big impact on the potential density of the fuels. While specifications are still evolving, S&P Global Platts has standardized the

GO DEEPER

Our new 0.5% sulfur marine fuel assessments can be accessed on Platts Global Alert using the codes below:

AMFSA00 (Singapore)
AMFFA00 (Fujairah)
PUMFA00 (Rotterdam)
AUGMA00 (US Gulf Coast)
AUAMA00 (US Atlantic Coast)

reference conversion factor for these new price assessments as 6.35 barrels per metric ton, aligned with the conversion factor for other fuel oil assessments at these locations.

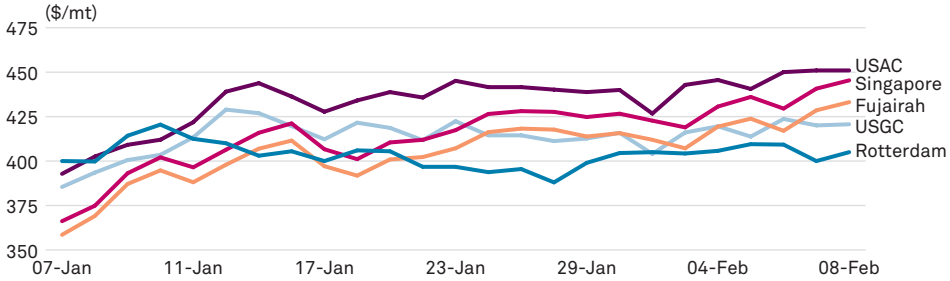
The new assessments reflect existing parameters for volume, delivery period, size, and pricing basis for HSFO cargoes in Singapore and Fujairah, and HSFO barges in Houston, New York Harbor and Rotterdam. While S&P Global Platts reported bids and offers for this fuel in January, these new markets are for the moment generally thinly traded. In the absence of an active spot market, the new assessments reflect the tradeable value of low sulfur marine fuels, established using information on blend economics from related fuels as an important reference point.

In the run up to the launch of these assessments, S&P Global Platts started internally assessing the value of 0.5% sulfur marine fuel from November 1, 2018. This helped garner feedback around the assessment and methodology applied in the absence of an existing compliant fuel market, while also ensuring robustness and consistency leading up to the launch itself.

Asia

For Asia, Platts launched assessments for Marine Fuel 0.5% cargoes loading FOB Singapore and FOB Fujairah. It is widely believed a spot market may be emerging first in Asia as China has started to implement the 0.5% sulfur fuel requirement from October 1, 2018, and Taiwan began to impose the requirement for ships calling at its ports to consume the new marine fuel from January 1, 2019.

0.5% MARINE FUEL ASSESSMENTS



Source: S&P Global Platts

Europe

In Europe, Platts launched a daily assessment for FOB Rotterdam Marine Fuel 0.5% sulfur barges. This market is still developing, but trading sources expect pricing levels to become clearer when more shipowners begin to test compliant fuels in 2019.

While Platts prioritizes transparent bids, offers and trades when assessing, there are a number of other indicators which are relevant to understanding price for this product, including HSFO, LSFO, LSSR, VGO, gasoil, and the ULSFO currently traded in the European Emission Control Area.

Americas

In response to feedback from US Atlantic Coast sources following the March announcement including a Houston barge assessment, Platts in November 2018 announced the launch of a 0.5% sulfur barge assessment loading out of New York Harbor, which launched on January 2.

Blending to the new 0.5% sulfur specification presents a unique challenge due to the pricing of residual fuel in the US on a dollars per barrel basis, compared to dollars per metric ton in Europe and Asia.

For the US, suppliers have said that making a compatible fuel with the lowest possible gravity will be essential when working the volume to weight conversion that occurs when moving from a fuel oil barge market to a retail bunker market.

For example, a 0.5% sulfur marine fuel that costs $70/b with an API of 11.2 (6.35 barrels/metric ton conversion factor) would result in a value of $444.50/mt.

The gravity will be especially important with the increased use of diesel in fuel oil blends, with US diesel and heating oil typically having a minimum API of 30.

A blend that costs $70/b that has an API of 20 (6.75 conversion factor) would translate to a cost of $472.50/mt. Sources in the US said that this conversion from volume to weight is the defining factor of what fuels the market decides to use when blending.

A widely shared view from market participants in the US for a 0.5% sulfur marine blend is a combination of low-sulfur straight run fuel and ultra-low sulfur heating oil, along with any low sulfur component with a low API, such as low-sulfur slurry.

