Fuel for thought

Jeff Currie, global head of commodities research at Goldman Sachs, sits down with S&P Global Platts to discuss the future of fuel oil and marine emissions regulation.

How do you see demand for fuel oil storage developing after 2020? Will it drop proportionately with demand for the product itself?

No it won’t drop proportionately, demand for storage will increase. When you get different grades you have to segregate and then you need more oil for the different grades. Storage demand increases as complexity increases, which can be seen by the comparison with gasoline and diesel. The global shipping industry is burning 3.3 million b/d of fuel oil and even with demand for HSFO falling to 1.1 million b/d you will still need more storage. Some 1.7 million b/d will be met by upgrading and half a million b/d by non-compliance.

Are oil companies adequately prepared for the rapid drop in fuel oil demand expected in late 2019 and early 2020?

It will be difficult but manageable. There is adequate upgrader/refining capacity to handle the changing demand, you just have to get oil to the right place – matching crude slates with upgrading capacity. It’s really a case of redirecting fuel oil around the world and the economics of that.

Would you expect to see the Trump administration take any steps to mitigate the effects of the new sulfur regulations in 2020, once the impact on crude prices is more clear?

We see a non-trivial probability that the 2020 US elections will have an influence. There is a risk on the horizon but it is not our base case. We wouldn’t discount any involvement if prices were to rise significantly.

Goldman Sachs has shown some interest in financing the installation of scrubbers. Do you see them as a long-term feature of the shipping industry?

Scrubber investments will soar in preparation for the International Maritime Organization’s 0.5% global marine sulfur cap in 2020. For a large vessel the economics of scrubbers are extremely compelling, with very short paybacks. Scrubbing the fuel is a last resort as it’s more expensive. You should really scrub the exhaust. Scrubbers will be a long-term feature like catalytic converters in cars.

Given the IMO’s initial strategy on dealing with greenhouse gas emissions, would you expect to see shipping moving away from oil-based fuels more quickly than road transportation over the coming decades?

No. Petroleum still packs the biggest punch in terms of weight, so there is the energy density argument.