The Maritime Standard TMS

TANKER CONFERENCE

16 October 2018, Atlantis, The Palm, Dubai

PETROS G. DOUKAS PRESENTATION at The TMS Tanker Conference Dubai

Dear Clive and Trevor,

Congratulations on your excellent Conference and the top players and executives you gathered here today!

Well done

BACKGROUND

There are a number of factors that are causing stresses that affect economies and societies:

I. President Donald Trump's efforts to

- reduce America's trade deficits
- increase production in the USA
- create jobs in the USA

In his mind -whoever runs major trade surpluses against the US is on his "bad boy" list!

China - $636 billion traded /$375 billion deficit.
Canada - $582 bil. traded /$18 bil.deficit.
Mexico - $557 bil. traded / $71 bil.deficit.
Japan - $204 bil. traded /$69 billion deficit.
Germany - $171 billion traded with a $65 billion deficit.

- II. In EUROPE three major problems
- 1. BREXIT / Northern Ireland

  2. Italy €2.4 trillion debt, amidst
  -rising interest rates and
  -weak banking system

  3. Poor DEMOGRAPHICS

	2018.	2050
Greece	11 mil.	9.7 mil
Germany.	80.	73
Russia.	143.	129
Romania.	20.	15
France.	65.	70
Italy.	60.	56

  3a. Aging populations over 32% over 65 years old!
  Tremendous stress on their Social Security systems!

  3b. As nature dislikes voids we should expect the waves of MIGRATION to increase - causes stresses to societies and the continuation of the rise of HARD LINE POLITICAL PARTIES

- III. On the ASSET SIDE, Europe boasts-

1. Excellent infrastructure
2. Excellent universities
3. Highest education levels
4. Huge market size / EU GDP stands at about 17.5 TRILLION DOLLARS!
5. Free markets
6. A wide currency union with a stable currency / almost a RESERVE CURRENCY
7. Political stability
8. Open, liberal and tolerant societies
9. Great democratic institutions and traditions
10. Advanced and credible justice systems: Justice systems will be a major differentiating factor in attracting serious investments!

- IV. TIGHTER LIQUIDITY CONDITIONS especially for smaller companies

  HIGHER LEVELS OF INTEREST RATES across the globe!

  •The rate for one-week interbank lending in yuan in Hong Kong reached <u>7.6%</u> last Tuesday, up 4% since last week and from <u>3%</u> on January 2, to its highest level in over a year.

  •Since June 22, the Yuan has lost about 6% against the dollar =
  -good for exports
  BUT
  worried about a Trump response

TOUGH TIMES FOR EMERGING MARKETS

- •Pakistan, last Monday requested a bailout from the IMF!
- -Pakistan with a $62 billion infrastructure program, is the flagship country for China's global infrastructure building initiative!
- -The US will not look favorably to any bailout of Chinese concerns and investors there!

.... and there is more ...

- •Indonesia’s central bank has raised short-term interest rates five times since May,
- -intervened in the currency market to stabilize the rupiah and
- -delayed construction of power plants
- •The Reserve Bank of India lifted borrowing costs twice this year.

- Mexico raised its target interest rate to 7.75% from 5.75% last year.
- From 2.4% in January to 3.2% today
- ITALY: $2.3 trillion in public debt
- July 29, 2016 10-year yields =1.2%
- Oct. 4, 2018 = 3.4%
- Yields on 10-year U.S. Treasury bonds have climbed to their highest level since 2011.
- With S&P dividend yields roughly at 1.8%

V. BANKS IN THE GULF REGION

- These uncertainties and fluctuations will allow banks in the Emirates to take a more leading role in the global financial markets!
- But currently they are not very visible

VI. Growth today

Country.	Growth	CurAcc
USA.	2.9	-440
China.	6.6.	+70
Germany	1.9.	+320
Japan.	1.2.	+200
Britain.	1.2.	-100
Netherl.	2.9.	+95
Italy.	1.0.	+60
Turkey.	3.8.	-55
Pakistan.	4.8.	-20
Argentina	-3.0.	-35
Saudi Ar.	+1.0.	+50

VI. TANKER MARKET

Very poor freight tanker market over the last 18 months

MAJOR ISSUE: SULPHUR CAP and SCRUBBER REQUIREMENTS

The less than <0.5% sulphur cap in the bunker fuel that the vessels will be required to burn from the 1st January 2020, is proving to be a major source of anxiety, stress, rising cost of operations and conflict amongst shipping houses!

- Only vessels that have fitted "Scrubbers" would be allowed to burn bunkers with higher Sulphur content >0.5%.

- •Fitting ships with “Scrubbers” (equipment that help control the air pollution from the ships emissions) is not an easy issue to address:

- Why? Scrubbers would use water to clean the emissions and that water would then be discharged in the sea, something that the IMO is at the moment allowing.

- Therefore it is very debatable if this
- is an environmentally sound way to reduce air emissions.

- Some countries **will not allow** such discharge operation of "washings" in their territorial waters.

- NEVERTHELESS, I feel that EARLY ADOPTERS OF SCRUBBERS WILL GAIN AN EDGE, versus LATER adopters!!

- •Those who adopt will seek to downgrade the non-adopters!

SUPPLY OF SCRUBBERS

- •there may be not enough scrubbers available for all the ships in the market,

  ... while

- •there are very few companies that produce and supply the required lower sulphur bunker fuel!

- •Of course, if the demand is there, the supply will follow: but at a high cost and not immediately!!

- So, the shipping markets are not certain the needed quantities will exist.
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- So there may be better trading opportunities from East to West as the Middle eastern and Asian refineries are more modern and can produce the cleaner Gas oil product which can either be burned directly as bunkers or would be needed for the blending to produce the low sulphur Fuel oil.

Gray Areas

- Oddly, there are not yet internationally agreed standards for the Low sulphur fuel (i.e.<0.5% sulphur) which vessels' engines would be required to burn!

- How will the vessels' Hull and Machinery or P&I underwriters/ insurers view accidents caused by burning such bunker fuel since the quality of such bunker fuel would not have been bench-marked to an Internationally accepted standard!

- Thus for the shipowners the benchmarking of the quality of the fuel is a very serious issue.
- Many ship-owners feel that Scrubber equipment is not a permanent solution and they should lobby to avoid installing them and that burning the cleaner fuels with no exceptions, is the right solution along with slow steaming and other measures!
- If there is certainty of demand for the cleaner fuel from all ships then the refineries would make the needed investments to produce this fuel and the higher fuel cost as everyone would be burning the most expensive fuel would be passed down the line to shippers etc.

- Here we have technological advancements as more engines are now capable of burning LNG but also LPG something to take note although such solutions at the moment are very expensive for the a new build tanker.

- There will probably be counter-lobbying by those who have already fitted or are in the process of fitting scrubbers!
- The clash will be between the shipping houses themselves!

DEMAND FOR CRUDE

- ACCORDING TO THINK TANK CARBON TRACKER “Global demand for fossil fuels will peak in 2023”

  “Explosive growth in

- wind and solar will combine with •action on climate change and •slowing growth in energy needs = more fuel efficient machines, electric cars, electrification of transport, etc,…

  …. will ensure that fossil fuel demand peaks in the 2020s, Carbon Tracker predicts!

- This will pose a significant risk to financial markets, oil producers, refineries, and tanker owners!
- Ships are a long-term investment and unless they are compensated by longer-distances to be travelled by each ship, the economics do not easily work out!

- Also costs will be influenced by
- retro fitting of Water Ballast Treatment equipment (which cleans the seawater from the microorganisms so they are not moved/ deballasted to different geographical areas and harm the local ecosystem.
- ... and continuous technology applications for live monitoring of each ship’s movements, bunkering requirements, etc!

- Finally need to bet on US fossil fuel production and exports, given the use of pipelines and USA port limitations!

- ➢ In taking a position, shipowners & investors will have to consider:
- 1. What others are doing to avoid oversupply of vessels
- 2. Geopolitical factors that may affect the length of voyages.
- 3. The pace of substituting fossil fuels with alternative energy sources and electric power!

  -Also the continuous improvement in the fuel efficiency of all engines!
- 4. Global growth rates and growth in international trade, given the rise in protectionism!

  -My feeling is that global trade will grow at around 4% p.a. for the next few years!
- 5. The cost of borrowing and equity capital which is on a rising trend!
- ➢ - Shipping companies will be pressured to gain size or perish, because
- ❖ 5.1. The big boys will have much better access to capital and will gradually squeeze out smaller players!
- ❖ 5.2. Their clients are also becoming bigger and would not like to bother will smaller shipping companies!
- ❖ 5.3. Big shipping and transport companies may invest in their own port facilities in the big ports to ensure immediate access and tailor-made service!
- ❖ 5.4. There will constant needs for upgrading their IT infrastructure which will require more capital investments!