2019 THE CHALLENGES AHEAD

A COMMENTARY FROM RVB TANK STORAGE

The storage market has always been dynamic and 2019 will not be any different. If anything, it is going to become ever more interesting with a number of changes above the market with respect to regulations, expansions and changing market dynamics. But before we look at 2019, let us briefly look back at 2018, which was far from uneventful.

To start off, most mineral products were in backwardation which has led to ample storage availabilities around the globe, notably for diesel. Terminals with fixed long-term contracts were not so much affected but terminals with ullage had difficulties filling their storage tanks.

Cargo owners with flexible contracts gave back their tanks to go for short term leases at lower rates at the same terminal or took their business elsewhere at lower rates. This situation was specifically the case for Fuel Oil. It wasn't all bad of course: chemical storage terminals had a great year, riding the waves of a booming economy with most tanks rented out at more than reasonable rates and with high throughputs.

Extreme weather conditions affected the storage market as well: low water levels on the Rhine at the end of 2018 resulted in much more demand for storage with rail and truck connection to compensate for the small intake on the river barges. It also resulted in demand for additional storage tanks as cargoes kept coming in without being able to fulfil the demand in the hinterland.

CHANGING MARKET DYNAMICS

On the political side we had to deal with the prospect of (a hard) Brexit. Should you as a producer/buyer/seller have a back-up tank on mainland Europe or should you build up volume in a tank in the UK to be prepared for potential customs issues? Many uncertainties that resulted in many storage requests but also led to a' wait and see'- approach. That approach was even more true for IMO 2020. Some trading houses decided to minimise their fuel oil exposure and/or closed the fuel oil trading desks full stop. Others integrated their fuel and distillate desk to be as lean as possible for any outcome. Shippers feared and are still fearing higher bunker costs and are eyeing competitors or took the ostrich approach: they did not make a clear decision on how to deal with this issue, at least not publicly.

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The storage market has been affected by geopolitical issues as well. Take the trade war between the U.S. and China. This ongoing dispute is having a serious impact on global growth and therefore on demand for oil products and chemicals. Take the U.S. sanctions against Iran: what effect will this have on supply and demand balances and can the market cope with it? Finally, we have seen supply chain changes which we couldn't have imagined: exporting countries became importing countries and vice versa, product arbs changed, appeared or closed, new specs were introduced and import/export subsidies were granted or cancelled.

Now, 2019 has just started and we already see a lot of known unknowns. Such as the shape of the curve. Will the market flip into a reasonable contango for a longer period of time? That would mean the return of low hanging fruit, i.e. a lot of players looking for storage to bank on the cash and carry. For now it looks like most markets will still not justify such a play. But going forward? The crudes show some contango, but certainly not enough to absorb storage and financing costs. Most analysts are predicting crude stocks to grow throughout 2019, with a call on OPEC lower than what they are currently producing. But we need significant stock builds going forward to see a contango play on crude. With OPEC considering production cuts plus the Iran and Venezuela sanctions, significant builds look unlikely. Most products also still do not justify a storage play: fuel oil has been backwardated for quite some time now and gasoil has only recently flipped into a minor contango further out on the curve. But with additional demand for distillates due to IMO2020 going forward, a contango play in the middle distillates cannot be expected soon, if at all. Gasoline has been active on the storage front with a nice seasonal contango on the winter/summer spec. Most IFR storages are therefore full up to June 19.

Then IMO 2020. A lot has been said already on this topic and the discussion is still ongoing. Most people with interest in the matter predict it is more a refinery play than a blending game, but blending on sulphur, density and viscosity will still be needed. The impact for shippers is massive: vessels will slow down to save costs while engines and bunker fuel will be more expensive and that will have a serious impact on shipper's profitably and creditworthiness.

Orders for scrubbers are still increasing and therefore it looks like demand for high sulphur product is decreasing a bit less than the expected 3.1 million barrels per day. But that raises other questions: are there enough high sulphur barges left in 2020 to bunker these vessels with scrubbers in less obvious regions and are there enough high sulphur tanks available to store this? And will scrubbers become the victim of their own success?

If more than 5,000 scrubbers are installed, some argue that the cost advantages will be negligible because the spread between high sulphur and low sulphur will converge as a result. The IMO 2020 effect on storage is plain and simple: most participants have taken or are in the process of taking strategic fuel oil storage positions, despite the backwardation. A typical Fear of Missing Out approach, hence ullage for fuel oil is hard to find, whether it is for low sulphur of for high sulphur. Terminals have indicated they are ready for IMO 2020 and ready for whatever setup their customers want in terms of segregation, blending and avoiding risks of compatibility and stability issues. Mostly these configuration changes and/or investments have been made with commercial support and investment from their customers.

We are also witnessing a lot of reported expansion plans in the terminal business, both in chemicals and minerals. Quite a few terminals in Rotterdam, Amsterdam and Antwerp have outlined their expansion plans, and other terminals in north west Europe are following suit. Obviously it takes a while from planning to commissioning but it is certainly in the back of everyone's minds. If we look at chemicals, storage fees are more than healthy due to a healthy macro environment and lack of storage for (specialty) chemicals. But what will happen if these new builds come online and the macro picture looks less rosy? Certainly, this will depress storage rates. The same goes for mineral storage, and storage fees for oil products have not been that bullish lately anyway.

Finally, we would like to address the move to more sustainable fuels and feedstocks. We already witnessed a flurry of activity last year and in the early start of this year in biofuels and we think this will only increase. It certainly has the attention of most terminals. It requires dedicated systems, segregation and certification to name a few but also expansion as capacity now seems on the low side. The danger however of investing in additional capacity or to refurbish existing tanks is that most of these trades are still subsidy driven or rather opportunistic with an eye on anti-dumping rules that will or will not come into force. However we feel that this trend will continue and that more and more terminals will jump on these opportunities, whether it is for biodiesel, waste based feedstocks (UCO) or blendstocks (bio-ethanol and bio-methanol).

Despite all these known unknowns, we are certain that the terminal business will react adequately and promptly. Of course, RVB Tank Storage Solutions is in the middle of all these developments and is able to assist and advise, whether you are a terminal operator, a cargo owner or an investor. We are here to help!

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