INTERVIEW: Price risk management for future marine fuels more complex, forecasts ElbOil

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The following interview arranged by Conference Connection is part of pre-event coverage for the upcoming 12th International Fujairah Bunkering & Fuel Oil Forum (FUJCON 2021), where Manifold Times is an official media partner. Readers can register for the virtual event by clicking on the link here.

It will be increasingly difficult for the maritime and shipping sectors to manage bunker price risk volatilities when the industry starts adopting cleaner marine fuels, believes the Managing Director of marine fuels trading company ElbOil Singapore Pte Ltd.

"In order to meet the deadlines of IMO 2030 and 2050, a slate of clean fuels such as biofuels, ammonia and methanol will eventually be adopted by ship owners and operators," Dennis Ho tells Singapore bunkering publication *Manifold Times*.

"In days priors to 2020, price risk management was straightforward. One will just hedge their physical bunker exposure with cargo indexes such as MOPS 180cst, 380cst, Gasoil, Rotterdam Barges swaps or crude indices like Brent futures which has lot of liquidity while being closely correlated to the respective bunker fuel grades and regions.

"Moving into 2020, the price index for VLSFOs (Very Low Sulphur Fuel Oil) was initially pegged to the more expensive 10ppm gasoil less a discount. Looking at the chart [attached], the 0.5 Marine Fuel Oil vs Gasoil 10ppm (affectionally known at 5go) has seen a lot of volatility of almost USD100 per mt at its peak.

"Effectively, this means anyone that used Gasoil 10ppm as a hedge early in 2020 would not have done well as one would had to pay much higher for the physical VLSFO. Conversely, anyone who bought a VLSFO physical delivery basis Gasoil 10ppm index earlier would have benefitted from the wild swing in the spreads.

"It took almost a year for the 0.5 Marine Fuel index to eventually gain a certain level of liquidity for physical contracts to be priced on. It's liquidity, however, compared to high sulphur indexes before 2020 is still low."

Similar to the price volatility seen by the VLSFO market in early 2020; a future scenario of new clean bunker fuels facing similar price risk fluctuations due to the market grappling with a proxy index to manage price exposure may exist, forecasts Ho.

"Even today, price determination for LNG (liquefied natural gas) as bunkers in the Asian spot market is a challenge. LNG cargoes in Asia are priced off the JKM index (Japan-Korean marker) which itself has relatively low liquidity," he explains.

"Going forward, as the type of bunker fuels becomes more diverse, managing price exposures will mean having to use different indices to hedge. Thus losing some levels of economies of scale as players will need to maintain different mark-to-markets and different sets of margin maintenance with different exchanges.

"That is provided if there is an index to hedge on in the first place for the alternative cleaner fuel."

Ho encouraged shipowners, operators and bunker buyers to actively manage their respective price exposures.

"Having some form of a price risk management program is better than none. And it's always good to have a conversation with industry experts," he shares.

"ElbOil, with its team of experienced traders in Europe and Asia, is on hand to face this new challenge. Each risk management solution is unique and we are able to design a custom hedging solution that suits our clients.

“As a licensed entity to trade biofuels and carbon credits, ElbOil is confident to serve the evolving bunker fuel needs of the shipping industry.”

Note: Dennis Ho will be speaking at Session 4A: Risk Management & Oil Storage at FUJCON 2021.

Photo credit: ElbOil
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