A brighter outlook

After an extremely difficult year in 2017, owners and operators of LPG tonnage sailed into somewhat calmer waters in 2018, helped by firmer demand and decelerating fleet growth. While the first half of the year remained challenging, there was a significant improvement in earnings in the second half. A marked improvement was recorded in the LPG market as from the second half of 2018. Indeed, the Baltic Exchange Liquid Petroleum Gas Index (BLPG) averaged $27.80 in the first half of the year, but reached an average of $41.30 for the second half.

Overall, rates were 25% higher over the full year compared with 2017, as both supply and demand trends turned in owners’ favour.
Since 2015, the LPG shipping fleet has seen exceptionally high fleet growth. Capacity rose 48% in 2015, 41% in 2016, and 9% in 2017. Such tonnage concentration helps to explain the collapse in the BLPG from a high of nearly $140 per ton in 2015 to levels of around $30 at the start of 2018. 2018 saw a marked slowdown in fleet growth, however. Between 1 January and 31 December the LPG fleet saw a net gain of just 535,000 cbm, representing an overall fleet growth of just 2%. This undoubtedly contributed to the firming in rates during the year, and reflected both an increase in demand and a decline in the number of vessels delivered.

Nearly all size segments saw a drop in the number of vessels delivered in 2018. Just 10 VLGCs were handed over in 2018, and only 9 midsize units. These figures represent respectively a 50% and 40% decline in capacity added year-on-year.

Meanwhile, in the deminisation market, 35 units equivalent to 850,000 cbm were scrapped in 2018, versus 22 units of 385,000 cbm in 2017.

Capacity rose 16% in 2015, 18% in 2016, and 9% in 2017. Such tonnage concentration helps to explain the collapse in the BLPG from a high of nearly $140 per ton in 2015 to levels of around $30 at the start of 2018. 2018 saw a marked slowdown in fleet growth, however. Between 1 January and 31 December the LPG fleet saw a net gain of just 535,000 cbm, representing an overall fleet growth of just 2%. This undoubtedly contributed to the firming in rates during the year, and reflected both an increase in demand and a decline in the number of vessels delivered.

Nearly all size segments saw a drop in the number of vessels delivered in 2018. Just 10 VLGCs were handed over in 2018, and only 9 midsize units. These figures represent respectively a 50% and 40% decline in capacity added year-on-year.

Meanwhile, in the deminisation market, 35 units equivalent to 850,000 cbm were scrapped in 2018, versus 22 units of 385,000 cbm in 2017. Challenges lie ahead however. Some 24 VLGCs are due for delivery in 2019, and 14 midsize units.

Since 2015, the LPG shipping fleet has seen exceptionally high fleet growth. Capacity rose 48% in 2015, 41% in 2016, and 9% in 2017. Such tonnage concentration helps to explain the collapse in the BLPG from a high of nearly $140 per ton in 2015 to levels of around $30 at the start of 2018. 2018 saw a marked slowdown in fleet growth, however. Between 1 January and 31 December the LPG fleet saw a net gain of just 535,000 cbm, representing an overall fleet growth of just 2%. This undoubtedly contributed to the firming in rates during the year, and reflected both an increase in demand and a decline in the number of vessels delivered.

Nearly all size segments saw a drop in the number of vessels delivered in 2018. Just 10 VLGCs were handed over in 2018, and only 9 midsize units. These figures represent respectively a 50% and 40% decline in capacity added year-on-year.

Meanwhile, in the deminisation market, 35 units equivalent to 850,000 cbm were scrapped in 2018, versus 22 units of 385,000 cbm in 2017. Challenges lie ahead however. Some 24 VLGCs are due for delivery in 2019, and 14 midsize units.

Since 2015, the LPG shipping fleet has seen exceptionally high fleet growth. Capacity rose 48% in 2015, 41% in 2016, and 9% in 2017. Such tonnage concentration helps to explain the collapse in the BLPG from a high of nearly $140 per ton in 2015 to levels of around $30 at the start of 2018. 2018 saw a marked slowdown in fleet growth, however. Between 1 January and 31 December the LPG fleet saw a net gain of just 535,000 cbm, representing an overall fleet growth of just 2%. This undoubtedly contributed to the firming in rates during the year, and reflected both an increase in demand and a decline in the number of vessels delivered.

Nearly all size segments saw a drop in the number of vessels delivered in 2018. Just 10 VLGCs were handed over in 2018, and only 9 midsize units. These figures represent respectively a 50% and 40% decline in capacity added year-on-year.

Meanwhile, in the deminisation market, 35 units equivalent to 850,000 cbm were scrapped in 2018, versus 22 units of 385,000 cbm in 2017. Challenges lie ahead however. Some 24 VLGCs are due for delivery in 2019, and 14 midsize units.

VLGC = 75,000 cbm +

The VLGC segment saw arguably the most dramatic improvement in 2018. But 2019 had to wait several months for signs of life. January saw the start of four consecutive months of falling freight rates due to thin arbitrage opportunities for traders. In Q2, the BLPG dropped below $20 to hit $19.93 on 27 April, the lowest level in eight months. A lack of buying interest from Asia, and competition from trader rivals, served only to increase the open vessel position list. Meanwhile, in March and April, high inventories in the US kept the Mont Belvieu price low, pushing the average propane arbitrage from the US to the Far East to $50 per ton.

However, the advent of the tariff war between the US and China disrupted the flow of cargo moving to China. The Middle East Gulf, including Iran, subsequently took over as China’s largest supplier, but with it came reduced ton-miles.

It remains to be seen how the trade war and sanctions against Iran will impact the market in the medium term. Chinese demand growth also moderated compared to the high growth rates seen in 2015.

Overall, Time Charter Equivalents on the Middle East-Japan route touched a low of just over $2,000 per day in April and a high of $30,000 at end September. The latter was the highest level seen since 2016.

During the year, Exmar made the headlines when it announced an order for two LPG-fuelled VLGCs to be built at Hanjin Heavy Industries (HHI) in the Philippines for delivery in Q3 2020. The vessels, which will be chartered to Equinor, will utilise their onboard LPG fuel as cargo.

Meanwhile, BW LPG announced the first over LPG fuel retrofits, it will equip four of its VLCCs with LPG-propelled dual fuel engines as it prepares for the IMO 2020 fuel cap.

VLGC = 75,000 cbm +

The VLGC segment saw arguably the most dramatic improvement in 2018. But 2019 had to wait several months for signs of life. January saw the start of four consecutive months of falling freight rates due to thin arbitrage opportunities for traders. In Q2, the BLPG dropped below $20 to hit $19.93 on 27 April, the lowest level in eight months. A lack of buying interest from Asia, and competition from trader rivals, served only to increase the open vessel position list. Meanwhile, in March and April, high inventories in the US kept the Mont Belvieu price low, pushing the average propane arbitrage from the US to the Far East to $50 per ton.

However, the advent of the tariff war between the US and China disrupted the flow of cargo moving to China. The Middle East Gulf, including Iran, subsequently took over as China’s largest supplier, but with it came reduced ton-miles.

It remains to be seen how the trade war and sanctions against Iran will impact the market in the medium term. Chinese demand growth also moderated compared to the high growth rates seen in 2015.

Overall, Time Charter Equivalents on the Middle East-Japan route touched a low of just over $2,000 per day in April and a high of $30,000 at end September. The latter was the highest level seen since 2016.

During the year, Exmar made the headlines when it announced an order for two LPG-fuelled VLGCs to be built at Hanjin Heavy Industries (HHI) in the Philippines for delivery in Q3 2020. The vessels, which will be chartered to Equinor, will utilise their onboard LPG fuel as cargo.

Meanwhile, BW LPG announced the first over LPG fuel retrofits, it will equip four of its VLCCs with LPG-propelled dual fuel engines as it prepares for the IMO 2020 fuel cap.
Butane

Butane

Butane

Butane

Corvette - Annual review 2019

BW announced the first ever LPG fuel propulsion retrofit

in 2019. Meanwhile, 5 units were demolished in 2018. 16 in 2017. The market is scheduled to receive 9 more carriers, to build a new ethylene export facility on the US Gulf Coast with the capacity to export 1 million tons per month for semi-refrigerated vessels in the Medium to Large size range.

Small LPG - 13,000 cbm and below

2018 was again a difficult year for the larger pressurized vessels in the 7,500-12,000 cbm size range.

Handysize - 12,000 to 30,000 cbm

Time charter rates reached an average of $500,000 per month for semi-refrigerated vessels in the Handysize segment in 2018, underlying the strong year for this segment.

The market saw more long haul petchem cargoes from west to east, which benefit the fleet, including ethylene capable units. This trend is expected to accelerate in 2019 thanks to several new pipeline and terminal projects currently underway and due to cheap ethane feedstocks in the US which will increase demand for export.

In 2018, US energy provider Enterprise Products Partners announced a 50/50 joint venture with Navigator Holdings, operator of the world’s largest fleet of Handysize LPG carriers, to build a new ethylene export facility on the US Gulf Coast with the capacity to export 1 million tons of ethylene per year. The facility is expected to go into service in Q1 2020. Mariner East 2, the second phase in the Mariner East Project, will also further boost US exports of propane and ethane. The pipeline, processing and export project is being developed to convey NGLs from west Virginia and eastern Ohio to Marcus Hook on the US east coast. Owner Sunoco confirmed that a hybrid version of the second pipeline started operations in December 2018. Handysize operators saw some market cannibalization in 2018 after two propylene shipments were taken as part-cargoes by VLGCs for the first time ever during the summer.

Overall, 11 new ships were delivered in 2018, down from 16 in 2017. The market is scheduled to receive 9 more in 2019. Meanwhile, 5 units were demolished in 2018. However, this number may be expected to rise in the coming years with 18% of the fleet over 25 years old and the advent of new regulations.

Midsize - 30,000 to 50,000 cbm

After a very difficult year in 2017 due to widespread overcapacity, the modern midsize segment saw Time Charter rates climb from the mid $400,000/month level at the start of 2018 to the high $560,000 by year end. This was mainly due to more long haul petchem voyages from the US Gulf, Brazil and Europe to Asia.

However, the segment did not perform as well as the VLGCs or Handysize, and traded at a discount to Handysize for much of the year.

About one-third of this fleet is now employed in the ammonia (NH3) trades, mainly on long-term charter. 9 ships were delivered during 2018, 40% lower than in 2017. While the orderbook remains limited, with just 2 ships scheduled for delivery in 2019 and 1 in 2020. Six units were demolished during 2018.

Handysize - 12,000 to 30,000 cbm

Time charter rates reached an average of $500,000 per month for semi-refrigerated vessels in the Handysize segment in 2018, underlying the strong year for this segment.

The market saw more long haul petchem cargoes from west to east, which benefit the fleet, including ethylene capable units. This trend is expected to accelerate in 2019 thanks to several new pipeline and terminal projects currently underway and due to cheap ethane feedstocks in the US which will increase demand for export.

In 2018, US energy provider Enterprise Products Partners announced a 50/50 joint venture with Navigator Holdings, operator of the world’s largest fleet of Handysize LPG carriers, to build a new ethylene export facility on the US Gulf Coast with the capacity to export 1 million tons of ethylene per year. The facility is expected to go into service in Q1 2020. Mariner East 2, the second phase in the Mariner East Project, will also further boost US exports of propane and ethane. The pipeline, processing and export project is being developed to convey NGLs from west Virginia and eastern Ohio to Marcus Hook on the US east coast. Owner Sunoco confirmed that a hybrid version of the second pipeline started operations in December 2018. Handysize operators saw some market cannibalization in 2018 after two propylene shipments were taken as part-cargoes by VLGCs for the first time ever during the summer.

Overall, 11 new ships were delivered in 2018, down from 16 in 2017. The market is scheduled to receive 9 more in 2019. Meanwhile, 5 units were demolished in 2018. However, this number may be expected to rise in the coming years with 18% of the fleet over 25 years old and the advent of new regulations.

Midsize - 24,000 to 42,999 cbm

The mid-size segment between 24,000-42,999 cbm showed a fair degree of activity, with transactions mainly concentrated on more modern units for further trading or older vessels for demolition. Noteworthy was the purchase by Z/cat of the Sanlo Innovator and Sanlo Independence. These two vessels built by Korean Hyundai Heavy Industries in 2008 were rumoured to have been sold for between $14 million and $16 million each. The only other sale for further was the disposal of the Solare, built 1996 at Cantieri Navali di Sestri, which Cartefossa sold to Great Eastern for $8.7-$8.9 million. Finally, 6 vessels were sold for demolition to Indian buyers.

Handysize - 13,001 to 23,999 cbm

There was very limited activity in this segment, with only four units reported sold for demolition.

Small LPG - 13,000 cbm and below

High levels of activity were also apparent in the smaller segment, with more than 50 deals reported for ships of 13,000 cbm and below. During the year, Extrax clinched a deal to sell and leaseback 10 vessels to Japanese counterparties. Otherwise, activity was widely spread between the different ages of vessel, although vintage units proved particularly popular with southeast Asian buyers, which will use the ships for local and domestic trades.

More than 100 units changed hands in 2018