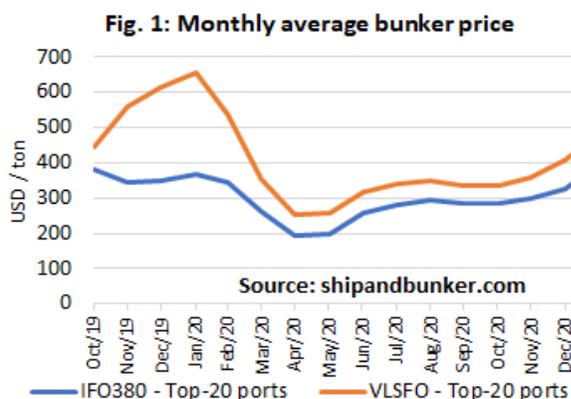


Prepare for increasing BAF

When the pandemic hit the world, global crude oil prices virtually collapsed, and for the container shipping market, and public discourse switched from the IMO 2020 regulations and the early bottleneck-induced spikes in the Very Low-Sulphur Fuel Oil (VLSFO) premium to the pandemic at first, and then to port congestion and record-high freight rate levels. However, just because an important topic disappears, does not mean it no longer exists. Looking at the recent developments in fuel prices will show that shippers should begin to prepare for future BAF increases.

There was a dramatic drop in the bunker fuel prices due to the pandemic, after which they somewhat increased and stabilized at a level of around 290 USD/ton for IFO380 and around 340 USD/ton for VLSFO. This level was quite stable from June to early November, however, since then, the fuel price has begun to increase significantly. For VLSFO fuel, the price has increased 35% from November 1st, 2020 to January 8th, 2021. However, the carriers' different BAF structures mean they do not all adjust BAF at the same time. Some do it monthly (usually based on the monthly average fuel price with a 2-month time lag) and some do it quarterly.



From figure 1 we can see that November rates only increased slightly – from 337 USD/ton in October to 357, as the upturn only gathers pace during November. However, in December we see a jump to 407 USD/ton and January thus far is at 427 USD/ton, with an upwards trend. For carriers that make monthly adjustments, this means that low-sulphur fuel prices can trigger BAF increases, especially from March onwards. For carriers that make quarterly adjustments, Q2 BAF (applicable in April-June) would be based on the average fuel

price in December-February, and while the beginning of 2021 remains stable by virtue of stability seen most of 2nd half of 2020, the calculational basis for BAF stands to increase significantly for 2021-Q2.

Furthermore, the VLSFO premium has also increased from a stable value for 50 USD/ton for most of 2020 to 86 USD/ton from mid-November onwards. Not only is this important for BAF structures but is also important in two other contexts. Firstly, this means that carriers will see an improvement in the relative value of the scrubber installations, allowing them to use IFO380. But it also means that we might begin to see a re-kindling of the discussion as to whether BAF formulas should take the scrubber-enabled vessels into account - especially on the Asia-Europe trade, where many vessels have had scrubbers installed.

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Sea-Intelligence is a leading provider of Research & Analysis, Data Services, and Advisory Services within the global supply chain industry, with a strong focus on container shipping. Combining strong quantitative analytical skills with a deep understanding of the supply chain industry, based on many decades of experience at all central parts of the Ocean supply chain, Sea-Intelligence supports customers across all stakeholder groups.