Argus to launch IMO 2020 LSFO price assessments

Pricing agency says product designed to capture growing liquidity in Singapore-delivered bunker market.

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Argus is set to launch a new low-sulphur fuel oil (LSFO) 0.5%S delivered bunker price assessment for Singapore from next week.

It is said to answer calls from the industry for an “independent price” for IMO 2020-compliant product for use in forward physical and derivative contracts.

Having re-launched its HSFO and LSMGO assessments in June, Argus now claims to be the first price reporting agency (PRA) to launch a new IMO 2020-compliant fuel oil assessment.

The announcement comes on the opening day of the APPEC in Singapore, where the IMO 2020 sulphur cap and its implications are likely to figure heavily on the agenda.

“This announcement could initiate a flood of bunker fuel contract negotiations that extend beyond the January 2020 implementation date of the new 0.5% Sulphur limit that were previously impossible due to the lack of a price benchmark to reference in the contracts,” says Alan Bannister, who heads up the Argus delivered bunker assessments

The LSFO 0.5%S represents the value of 180cst fuel oil, 500-3,000t stem size, 4-12 days delivery from the trade date.

From 1st October 2018 it will be published as a blend ratio of 7:1 between HSFO and LSMGO but will align with Argus standard methodology of volume weighted averaging (VWA) of deals when these begin, which should happen prior to the period this assessment would be used.

Following this new launch, Argus will have three assessments for delivered bunker fuels in Singapore: HSFO 380cst, LSMGO 0.1%S and now LSFO 0.5%S.

“The launch of the new Argus LSFO 0.5%S delivered bunker fuel assessment is the latest in a series of changes to our marine fuels coverage designed to capture and incorporate the growing liquidity in Singapore-delivered marine fuels markets,” says Bannister.

In June, Argus re-launched its suite of Singapore-delivered bunker fuels price assessments as volume-weighted averages of reported trade.

It was helped, Bannister says, by two of the most dramatic changes the local bunker industry has seen in a generation, the introduction of Mass Flow Meters (MFMs) and IMO2020.

“Prior to their introduction, different customer service levels affected the price offered, making the value difficult to assess,” he tells TradeWinds.

“Now there are consistent standards of measuring quantity and quality, and as a consequence the ability to accurately assess price today is much better than it would have been two years ago.”

The introduction of the 0.5%S limit by the IMO in 2020 is also set to radically change the bunker market, according to Bannister

“People are going to have to change price references because 3.5% 380cst HSFO will no longer be relevant unless you have a scrubber.

“That very seldom happens in a market where something structurally happens were the whole industry has to change the way it prices itself.

“So this ‘sweet spot’ that we’ve nestled into after MFMs and before IMO 2020 is the perfect time to come to the market with a new pricing product.”

Singapore was chosen for because it is the world’s largest bunkering hub with an estimated 4mt of bunkers sold every month.

Over 125 bunker operations take place a day in Singapore of which maybe 60 to 70 deals a day taking place on spot, short-term fixed price basis, something Bannister describes as an "unbelievable data set".

The deal information is treated as "strictly confidential", with only the total quantity of the deals and the assessed price published.

"We consider deals that are for delivery 4 to 12 days from the trade date and stem size between 500 and 3,000t for Fuel Oil and 50 to 500t for LSMGO" he says.

Having filtered out deals that are outside those parameters and removed price outliers, roughly one quarter of the deals received are removed from the filtering.

"We do this is to try and get some consistency on the price because very prompt deliveries and those further out tend to be priced differently, and small quantities attract a barging premium," he says.

"We then do a VWA of what's left and that's the day's assessment, which represents the average price paid for that fuel that day."

Asked if it would be possible for assessments to be manipulate, Bannister said that would be "extremely difficult" as the assessment process uses a large quantity of data provided by multiple market participants.

"If a market participant tried to distort the assessment by submitting trade information that was not correct, it would likely be discarded by the process of removing outliers, before the VWA is calculated," he says.

"If any company is found not to be submitting trade data in good faith, they will not be allowed to submit data for three months."

So far some 28 different companies are said to have submitted data in the 12 or so weeks since the service was launched, which according to Bannister is "way more than we had hoped for" and "a lot more than most people thought we would get".

"What we are doing is disruptive, but it is also beautiful in that it is very simple. All you need to do is to persuade people to give you the trade information and you can get a demonstrably better assessment of what fair value is," he says.