Tanker Shipping Market Overview & Outlook

Market strengthens despite slowing oil demand growth

February 2024

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BIMCO

Supply/demand

The **supply/demand balance in the crude tanker market is expected to tighten during both 2024 and 2025** as the fleet grows slowly.

The **product tanker market supply/demand balance should tighten in 2024 but weaken in 2025** as the fleet outgrows demand.

A tightening supply/demand balance should result in i**ncreases in rates and prices in both market in 2024 and for crude tankers in 2025**.

Demand

The IMF estimates that **the global economy will grow 3.1% in 2024 and 3.2% in 2025**. Growth is slowing in key countries such as the US, China and India.

Crude supply growth in 2024 is estimated to be 1.2 mbpd by IEA. Mainly US, Brazil and Guyana will increase supply.

The IEA expects an oil demand increase of 1.2 mbpd in 2024. Demand continues to grow mainly in Asia while demand in OECD countries has stagnated.

Sailing distances continue to increase as oil market imbalances widen. Current Red Sea attacks further increase sailing distances.

Supply

The **crude tanker fleet is estimated to grow 0.6% in 2024 and 1.1% in 2025** as the order book remains small.

Product tanker fleet growth is expected to be 1.8% in 2024 but increase to 4.3% in 2025 as deliveries of ships contracted in 2023 begin.

We **expect sailing speed and congestion levels to remain static**. The tightening supply/demand balances makes it unlikely that ships will slow down.

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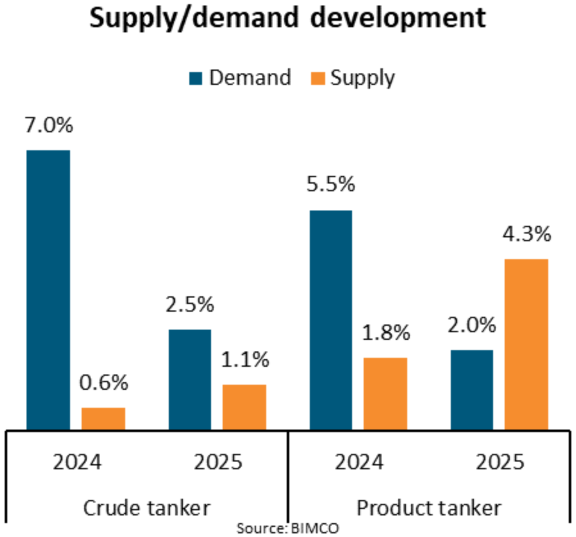
Supply/demand balance

For **crude tankers**, we forecast that the supply/demand balance will tighten further during both 2024 and 2025. Low fleet growth, along with increasing sailing distances, create the foundation for the improvement despite a slowing of growth in oil demand.

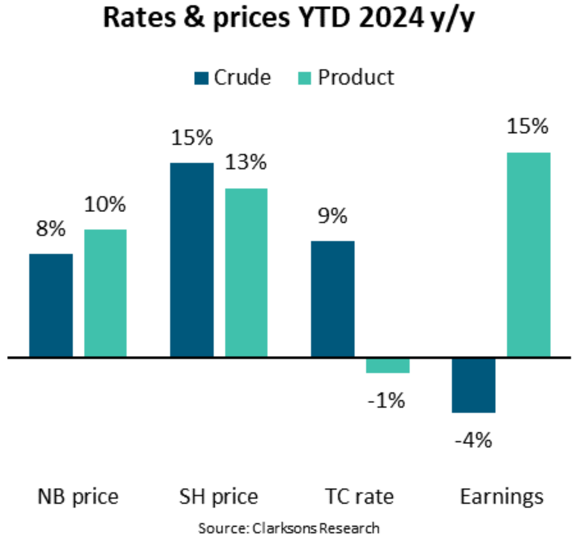


The **product tanker** supply/demand balance is also expected to tighten in 2024 but weaken in 2025. Like the crude tanker market, longer sailing distances support demand growth despite slowing oil demand. However, an increase in contracting of new ships during 2023 will drive fleet growth in 2025 higher than our estimated demand growth.

The crisis in the **Red Sea** is driving sailing distances up as ships avoid the Suez Canal and instead proceed via the Cape of Good Hope. In our forecast, we assume that this crisis will impact the market until the end of June 2024.

Crude tanker fleet capacity growth will be mainly in the Aframax and Suezmax segments that are estimated to grow by 2.8% and 4.2% respectively from end 2023 to end 2025. VLCC capacity is expected to grow only 0.5% and benefit most from the tighter supply/demand balance.

We forecast that **product tanker fleet** capacity will grow 6.2% between end 2023 and end 2025. The fastest growing segments are expected to be LR2s and MRs with capacity growth of 13.9% and 5.3% respectively during the two-year period. The two sectors are also expected to see the fastest demand growth but LR2s may nevertheless suffer more from the weaker market conditions expected in 2025.



Asset prices, rates and earnings have mostly been strong year-to-date and higher than a year ago. We expect rates, earnings and second-hand prices to continue to develop favourably in 2024 in line with the forecasted supply/demand balance. In 2025, some weakening must be expected for product tankers.

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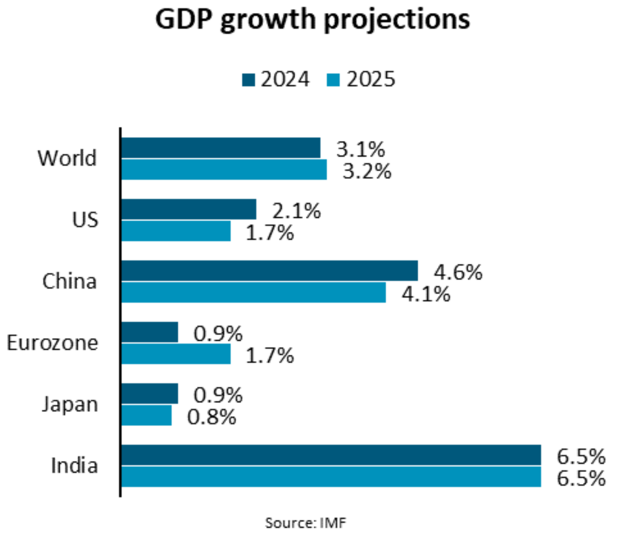
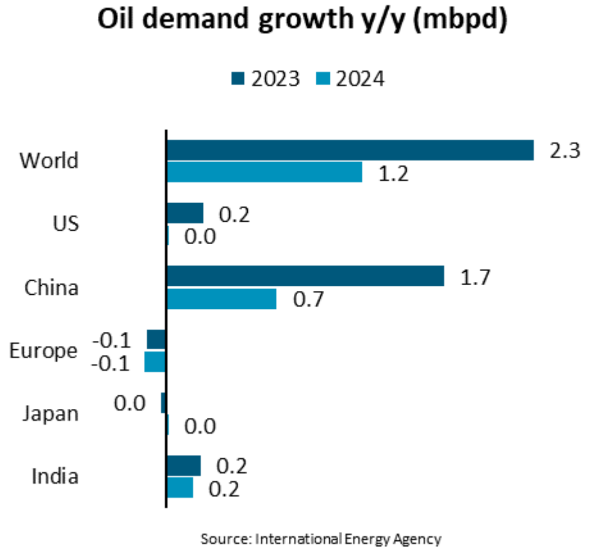
Macro environment

Global economic growth is estimated to have been 3.1% in 2023. The International Monetary Fund (IMF) projects that growth in 2024 and 2025 will end up at 3.1% and 3.2% respectively.



The IMF forecasts slower growth for both 2024 and 2025 in the US, China, Japan and India compared to 2023. On the other hand, the eurozone, Canada, Nigeria, Saudi Arabia, South Africa and the UK are forecast to see growth accelerate in both 2024 and 2025.

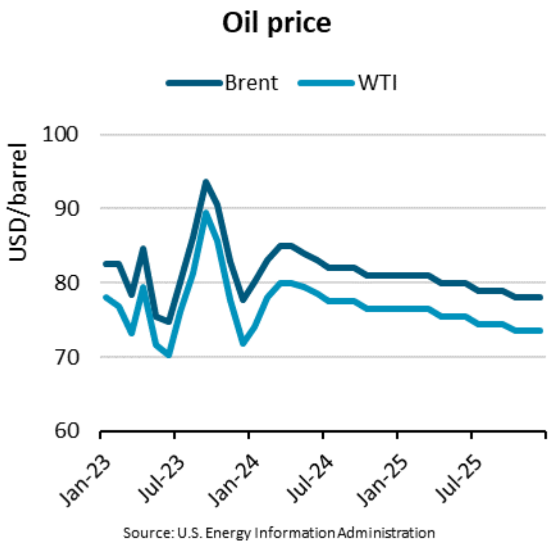
As inflation is falling faster than previously expected and growth remains steady, the risk of a hard landing has reduced, and risk is no longer weighted to the downside.



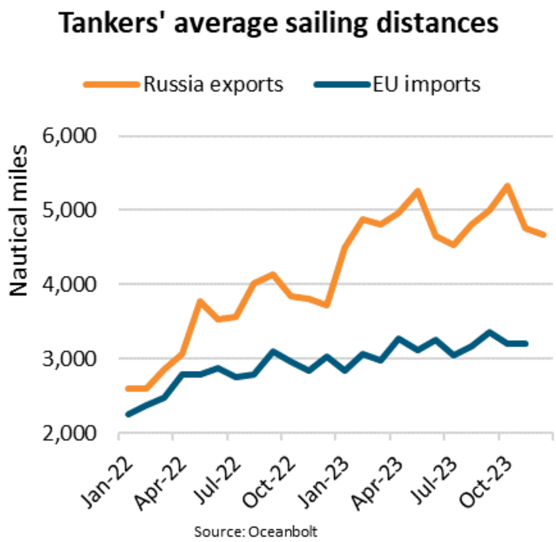
Global oil demand continued to grow in 2023 and, according to the International Energy Agency (IEA), increased by 2.3 million barrels per day (mbpd) to hit 101.8 mbpd. The IEA expects oil demand to hit 103.0 mbpd in 2024 but has not yet published an estimate for 2025. We believe that demand growth will slow further in 2025 and expect demand to end around 103.7 mbpd.

Demand growth in advanced economies has slowed significantly. According to the IEA, demand in the 38 countries that are members of the Organisation for Economic Co-operation and Development (OECD) increased only 0.1 mbpd in 2023 and will fall back to the 2022 level in 2024. Meanwhile, demand continues to grow in China, India, Brazil and Saudi Arabia. Those four countries accounted for 70% of demand growth in 2023 and are expected to account for more than 80% of growth in 2024.

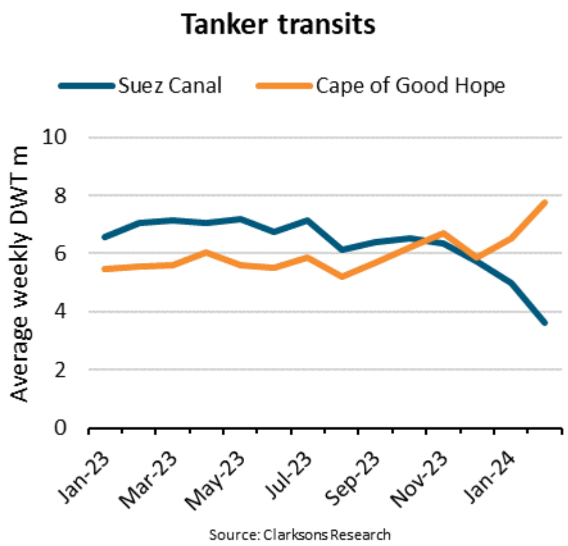
Oil prices in 2023 mostly continued at the levels reached at the end of 2022. The average price for Brent ended at USD 82/barrel in 2023. However, in December 2023, the average Brent price had fallen to USD 78/barrel as worries shifted from lack of supply to lack of demand. Brent prices are currently in the low eighties and the U.S. Energy Information Administration (EIA) expects that the average price in 2024 will end at USD 82/barrel and USD 80/barrel in 2025.



Geopolitics continue to play a key role in reshaping tanker trades. Since the Russian invasion of Ukraine in February 2022, sanctions on Russian oil exports have dramatically reshaped oil trades: Russia has had to find new export markets and the European Union has had to find new suppliers. This has increased average sailing distances and demand for tankers.



In October 2023, continued tensions between Hamas in the Gaza Strip and Israel led to a Hamas attack on Israel and Israel has since retaliated. In an apparent response to Israel's attacks, Since November 2023, Houthi attacks on ships in the Red Sea and the Gulf of Aden have increasingly caused ships to sail via the Cape of Good Hope instead of the Suez Canal. If all tanker ships that would normally transit the Suez Canal instead proceed via the Cape of Good Hope, we estimate that average sailing distances will increase by 10% for crude tankers and by 17% for product tankers. The latest status is that Suez Canal transits have fallen nearly 50%.



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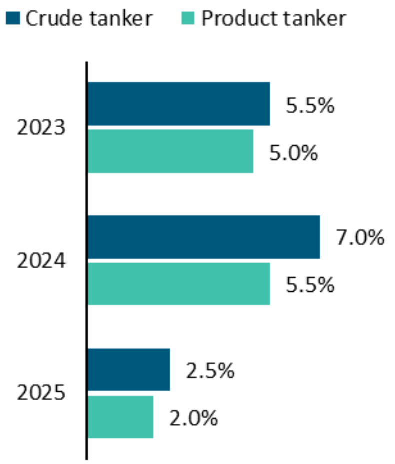
Demand

We estimate that **crude tanker demand** will increase by 6.5-7.5% in 2024 and 2-3% in 2025. Cargo growth is forecast to be 2-3% in 2024 and 1-2% in 2024. Increased sailing distances due to the Red Sea crisis are expected to lift demand in the first half of 2024, whereas the continued shift of crude supply towards the Americas and of crude demand towards Asia will add to average sailing distances in both 2024 and 2025.

Product tanker demand is forecast to increase 5-6% in 2024 and 1.5-2.5% in 2025. Cargo demand growth is estimated at 1-2% in 2024 and 0.5-1.5% in 2025. The Red Sea crisis is assumed to impact east/west trade lanes during the first half of the year and force a share of ships to proceed via the Cape of Good Hope instead of via the Suez Canal. Increased east/west volumes due to reduced refinery runs in Europe is in the meantime expected to add to sailing distances in both 2024 and 2025.

Tanker demand growth



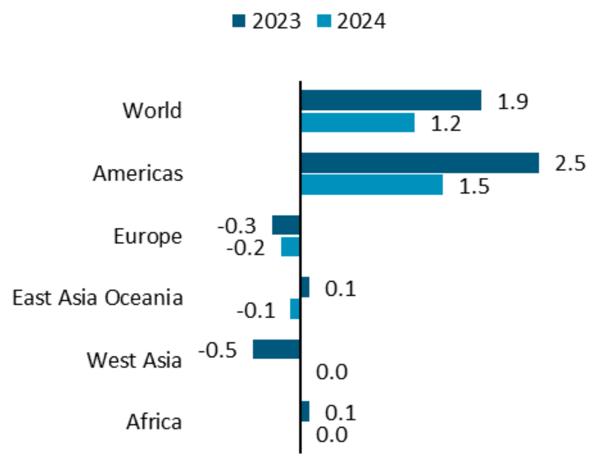
Source: BIMCO

Whereas **demand growth** in 2023 was dominated by an increase in the demand for jet fuel and other transportation fuels, demand growth in 2024 is expected to be driven by the petrochemical industry. Demand in North America and Europe is seeing the impacts of electrification and fuel efficiency, with demand in both areas appearing to have peaked. In fact, the IEA has estimated that demand in Europe has fallen in 2023 and will fall again in 2024.

The IEA also predicts that **crude supply** will expand by 1.2 mbpd in 2024 following an expansion of 1.9 mbpd in 2023. We assume that supply will increase by another 0.7 mbpd in 2025.

As in 2023, supply from the Americas in is forecast to expand faster than total supply in 2024 as supply from Russia is expected to fall. Supply could expand faster if OPEC+ decides to relax production cuts.

Crude supply growth y/y (mbpd)



Source: IEA

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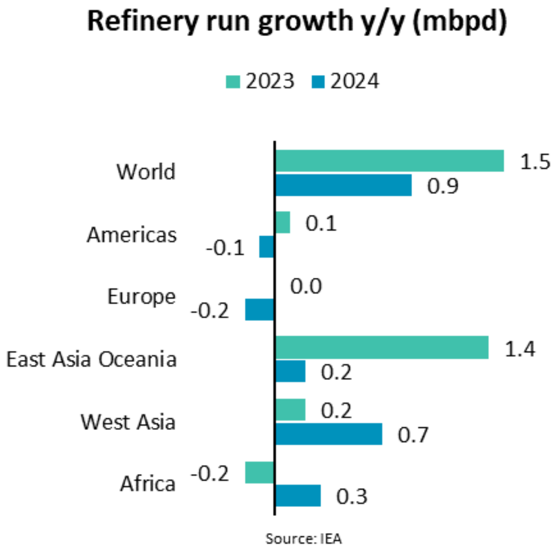
Refinery runs are expected to continue to expand in East and West Asia as capacity continues to expand. The inauguration of the Dangote refinery in Nigeria should result in an expansion of refinery runs in Africa. On the other hand, the IEA expects refinery runs in the Americas and Europe to fall. Lower demand is impacting refinery runs in Europe and increased competition from Asian refineries could cause refinery runs to fall further in 2025.



New refineries in Kuwait and Oman as well as expansion of capacity in Bahrain account for the increase in West Asian refinery runs. This should result in an increase in exports of refined products at the expense of crude oil exports.

Risks to our forecast naturally exist. A slower than expected reduction in inflation and interest rates in Europe and North America could hurt demand.

However, we consider the crisis in China's real estate sector a larger concern. A failure to resolve the crisis could further hurt consumer confidence and thus demand.

It goes without saying that we are unable to accurately forecast how long the Red Sea crisis will impact shipping. We have assumed that the crisis will continue during the first half of 2024. A quicker resolution will reduce the increase in average sailing distances and consequently demand.

It must also be mentioned that the longer voyages and higher freight rates via Cape of Good Hope could cause European buyers, for example, to favour crude and products from the Americas instead of from Asia and thereby partly negate the upside from longer sailing distances.

Obviously, the risks also present potential for upsides if inflation falls faster and the real estate crisis is resolved more quickly than expected. Similarly, if the Red Sea crisis continues into the second half of 2024, there will be a corresponding increase in demand for tankers.

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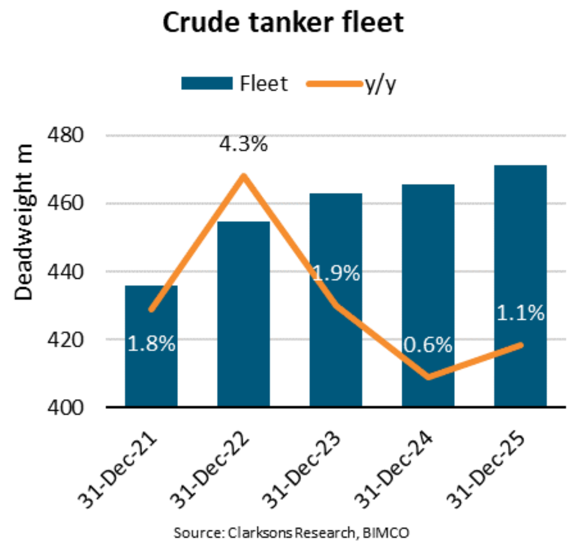
Supply

We forecast that **crude and product tanker supply** will grow in line with fleet growth during both 2024 and 2025. Crude tanker supply is therefore estimated to grow by 0-1% in 2024 and 0.5-1.5% in 2025. Product tanker supply is predicted to grow 1.5-2.0% in 2024 and 4-5% in 2025.

The **crude tanker fleet** is expected to see deadweight capacity growth of 0.6% in 2024 and 1.1% in 2025. It will grow from 463.1m deadweight tonnes at the end of 2023 to 471.0m deadweight tonnes at the end of 2025.

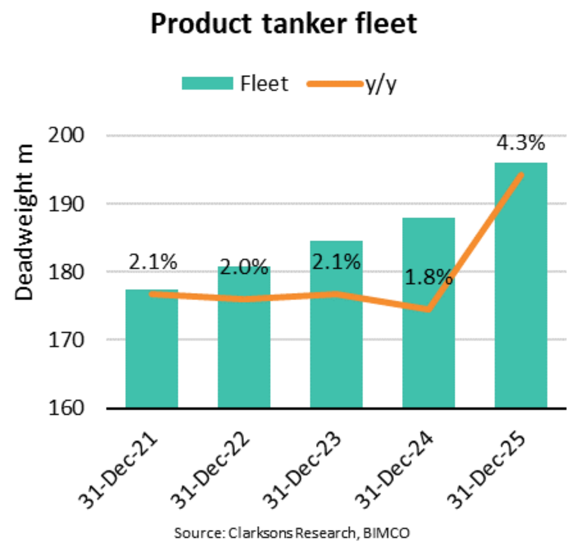
The Suezmax segment is forecast to account for more than 50% of the sector's capacity growth and grow 4.2% between end 2023 and end 2025. The Aframax segment will be the second fastest growing segment with 2.8% growth across the two years followed by the VLCC and Panamax segments with 0.5% and .01% growth respectively.

Contracting of crude tankers increased to 15.3m deadweight tonnes in 2023 from only 3.3m in 2022 and the order book to fleet ratio ended 2023 at 4.7%. Even though the bulk of this capacity will be delivered after 2025, nearly 30% will be delivered before then and contribute nearly 50% of the deadweight capacity delivered during 2024 and 2025.



In 2023, recycling of crude tankers was 0.4m deadweight tonnes, the lowest level since 1991. We predict the same 0.4m figure for 2024, and an increase to 0.6m in 2025.

The **product tanker fleet** grew 2.4% in 2023 to end the year with a capacity of 184.6m deadweight tonnes. We expect the fleet to expand by a further 1.8% in 2024 and 4.3% in 2024.

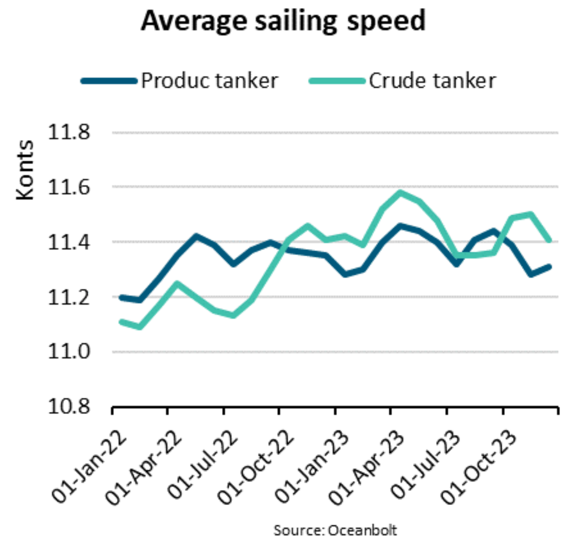


The bulk of the 21.5m deadweight tonnes that we expect the product tanker fleet to increase by during 2024 and 2025 will be added to the

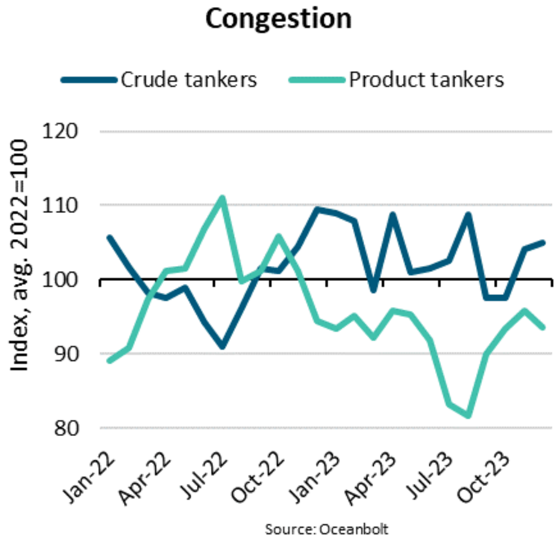
LR2 and MR segments. We estimate that the LR2 segment will grow by 13.9% across the two years whereas the MR and LR1 segments are expected to grow by 5.3% and 2.7% respectively. For the Handysize segment, we expect capacity to fall by 4.9%.
Contracting of product tankers grew to 17.3m deadweight tonnes in 2023, the highest in 10 years. That brought the order book to fleet ratio up to 12.9% at the end of the year.

Recycling of product tankers dropped to the lowest on record in 2023, with only 0.3m deadweight tonnes leaving the fleet. We expect recycling to stay at a similar level during 2024 but increase to 0.9m deadweight tonnes in 2025.

In 2023, **sailing speed** increased 0.3% and 1.9% year-on-year for product and crude tankers respectively, thus contributing to supply growing faster than the fleet. The crisis in the Red Sea is forcing more and more ships to avoid the area and sail via the Cape of Good Hope instead of using the Suez Canal.



In February 2024, the tanker deadweight capacity transiting the Suez Canal is nearly 50% lower than at the same time in 2023. We believe that the increased distances will contribute to maintaining the average sailing speed at the higher level for 2024. There is a possibility that sailing speeds will reduce in 2025 and contribute to lowering supply growth compared to fleet growth, but for now we have decided not to include such a reduction in our forecast.



Congestion for product tankers fell 8% in 2023 and contributed to supply growth growing faster than fleet growth. Conversely, crude tankers experienced 4% higher congestion, thus taking supply out of the market. In 2024, congestion for both sectors started slightly lower than in 2023 and we do not forecast any major change in congestion levels.

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BIMCO publishes Shipping Market Overview & Outlook reports towards the end of each month as follows:

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Tanker: February, May, August, and November
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