

# Tanker Shipping Market Overview & Outlook

Rebound in oil demand could lift market in latter half of 2024

August 2024

A decorative graphic at the bottom of the slide, consisting of several overlapping, wavy shapes in various shades of blue, creating a modern, abstract look.

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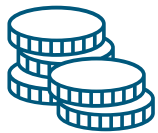
## Supply/demand



Based on a strong second half demand, **the supply/balance is forecast to strengthen in 2024 but weaken slightly in 2025** as newbuilding deliveries increase.

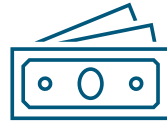


Driven by increasing sailing distances **product tanker demand is also expected to grow faster than supply in 2024 but slower in 2025** as ships return to normal routings.



A tightening supply/demand balance should result in **increases in rates and prices in both market in 2024 but could weaken in 2025**, especially in the product tanker sector.

## Demand



The IMF estimates that **the global economy will grow 3.2% in 2024 and 3.3% in 2025**. Growth is slowing in key countries such as the US, China and India.



The IEA estimates that **crude supply will grow 0.3 mbpd in 2024 and 1.5 mbpd in 2025**. Mainly US, Brazil and Guyana will increase supply.



**The IEA expects an oil demand increase of 1.0 mbpd in both 2024 and 2025**. Demand continues to grow mainly in Asia while demand in OECD countries has stagnated.



**We have assumed that Red Sea rerouting may last throughout 2024**. Longer sailing distances are therefore estimated to drive 100% of 2024 demand increases.

## Supply



The **crude tanker fleet is estimated to grow 0.5% in 2024 and 1.2% in 2025** as the order book remains small.



**Product tanker fleet growth is expected to be 1.6% in 2024 but increase to 4.8% in 2025** as deliveries of ships contracted in 2023 begin.



**predicted weakening of product tanker fundamentals are expected to lower sailing speed in 2025**. In 2024, sailing speed will not impact supply growth.

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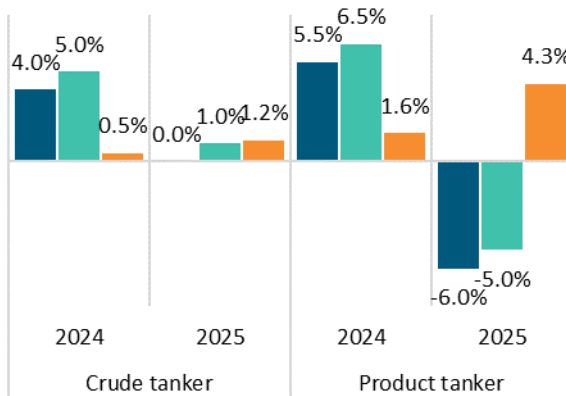


### Supply/demand balance

Despite weaker cargo volumes during the first half for both the crude and product tanker markets, we forecast a **recovery during the second half and that both markets on average will see a stronger 2024 than 2023.**

#### Supply/demand development

■ Min. demand ■ Max. demand ■ Supply



Source: BIMCO

Muted fleet and supply growth in both markets during 2024 is a key enabler for the relatively

significant strengthening of the supply/demand balance predicted.

**Longer sailing distances** due to rerouting of many ships via the Cape of Good Hope **help ensure strong tonne miles and demand growth in 2024** even if cargo volume growth is limited. By 2025, we base our forecasts on the assumption that attacks on ships in the Red Sea may have ended, allowing ships to use normal routings throughout the year.

Though we predict stronger growth in cargo volumes during 2025, the shorter sailing distances caused by the assumed return to normal routings will have a profound impact on tonne miles and therefore demand for ships.

We estimate that average sailing distances in the product tanker market will fall back to 2023 levels, whereas we estimate that the development in the crude tanker market will be less pronounced. Changes in the trade mix as the Atlantic/Pacific imbalance grows may ensure that average sailing distances will not fall all the way back to 2023 levels.

Combined with weak supply growth, we therefore estimate that the **crude market's supply/demand balance will weaken only slightly during 2025.**

On the other hand, the product tanker market will see a rapid expansion of supply in 2025 as the many ships recently contracted will begin to be delivered. As such, we forecast a **potential for a significant weakening of the product tanker supply/demand balance.**

It is obvious that should ships not be able to return to normal routings in 2025, demand growth will be stronger, and we would then expect a slight strengthening of the crude tanker market, while the weakening of the product tanker market would be much less pronounced.

During the first half of 2024, **both markets have seen year-on-year growth in asset prices and time charter rates.** Product tankers have also enjoyed a strong increase in freight rates, as measured by the Baltic Exchange, whereas weakness for both Aframax and Suezmax has

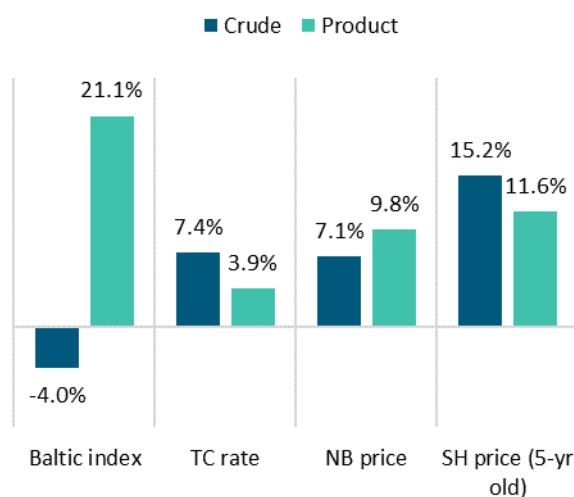
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kept a lid on the Baltic Exchange index for crude tankers.

Rates & Prices (H1 2024 y/y)



As second-hand prices have increased more than newbuilding prices, the ratio between the price for a five-year-old ship and a newbuild has increased to on average 88% and 96% for product and crude tankers respectively.

**We expect a strengthening of freight rates during the second half of 2024** compared to current levels.

Though newbuilding prices depend on the combined order book of all ship sectors, we do not expect further large price increases unless dry bulk contracting activity picks up significantly. In this context it is also worth mentioning that several Chinese yards are expanding their capacity, which should also help to temper further price increases. We also doubt whether second-hand asset prices will increase significantly more relative to newbuilding prices.

A shift back to normal routings as assumed in 2025 should begin to exert pressure on second-hand prices as well as on time charter and freight rates in the product tanker sector. The more balanced supply/demand development expected in the crude tanker sector may in the meantime help this market avoid a similar pressure.

## Macro environment

Following 3.3% growth in the global economy during 2023, the International Monetary Fund estimates that the **economy will grow 3.2% and 3.3% in 2024 and 2025 respectively.**

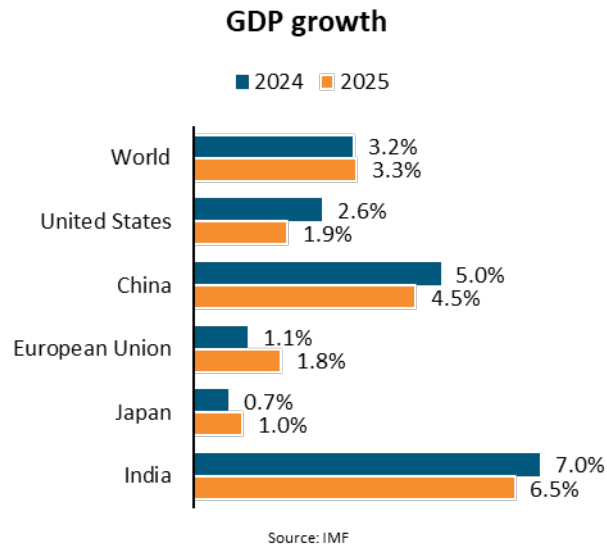
On average, the Europe & Mediterranean, South & Central America and Sub-Saharan Africa regions are forecast to grow faster during 2024-2025 than they did in 2023. All other regions are forecast to on average grow more slowly than in 2023.

The average annual growth rates in North America, Oceania, East & Southeast Asia and South & West Asia are respectively forecast to be 12%, 8%, 6% and 2% lower than the growth rates in 2023.

Despite the predicted slower growth rates, the East & Southeast Asia and South & West Asia regions are still respectively forecast to drive 41% and 23% of global growth during the two years.

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Despite fears that high interest rates could contribute to driving the US economy into recession, inflation has slowed significantly. This potentially **allows the Fed to begin lowering interest rates** and thereby underpin economic growth.

In China, **domestic consumption and the real estate sector continue to be a drag on the economy**. In addition, despite a few strong

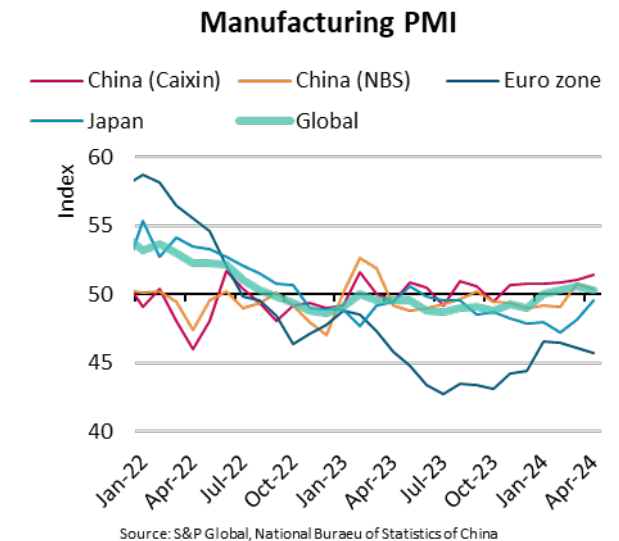
months recently, year-to-date manufacturing has not grown compared to last year. It is also noteworthy that foreign investors pulled USD 15bn out of China during the second quarter, causing foreign direct investment to be negative so far in 2024.

In the Europe & Mediterranean region, Germany has normally been a key driver of growth but has recently been a drag on growth instead. **German growth in 2023 was negative** as development in manufacturing in particular was weak. The country should return to positive but low growth in 2024 and 2025, and thus contribute to the growth rates predicted for the region, despite these being less than impressive.

In Japan, growth continues to be limited whereas India is expected to continue to be the fastest-growing large economy – it has outpaced China since 2021.

Manufacturing PMI partly confirms the developments in both China and the eurozone. In the eurozone, manufacturing PMI has

remained below 50 for 22 months straight whereas in China it has moved within the 49-51 range for a long time and only recently seen readings above 51.



Fortunately, **global manufacturing appears to have seen slight improvements** as the PMI has been above 50 for the last 4 months.

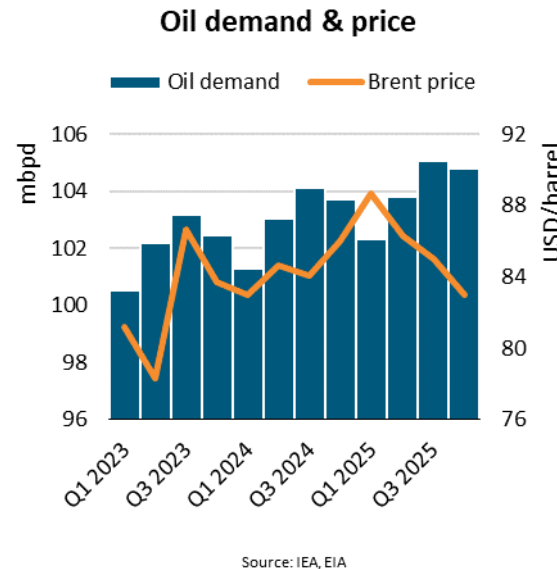
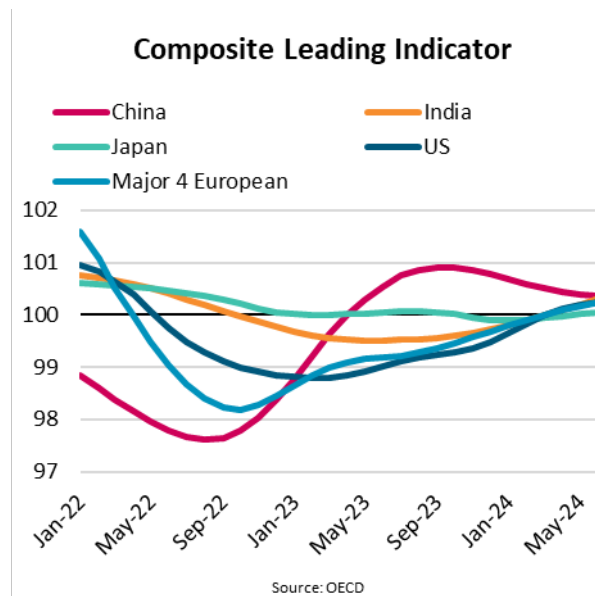
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The OECD's Composite Leading Indicator (CLI) also points in the same direction as the IMF's economic growth forecast.

In China, the CLI peaked during late 2023 but has fallen since. Though it remains positive it does indicate slowing growth 6-9 months from now, just as the IMF predicts. The CLI for India, US and four major European economies has recently improved and now marginally exceeds 100, indicating improving growth.



The International Energy Agency (IEA) has lowered its expectations for oil demand in 2024 and 2025 compared to when we released our last report. The demand **forecast for 2024 has been lowered by 0.1 million barrels per day** and now reads 103.1 mbpd. The forecast for **2025 has been lowered 0.3 mbpd** to 104.0 mbpd.

With the exception of the Middle East, lower demand in China and the rest of Asia has reduced the overall forecast, and an increase in Latin American demand has not been enough to counter the lower Asian demand.

Unrest in Israel and Gaza has exerted upward pressure on oil prices but concerns about weaker Chinese demand have kept prices in check. Moving forward, The U.S. Energy Information Administration (EIA) predicts that prices will remain within the USD 83-89/barrel range for the rest of 2024 and during 2025.

Despite the lower demand forecast for Asia, demand in the region is still expected to grow 2.6% and 2.1% in 2024 and 2025 respectively whereas **global demand growth is forecast at only 1.0% in 2024 and 0.9% in 2025.**

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### Demand

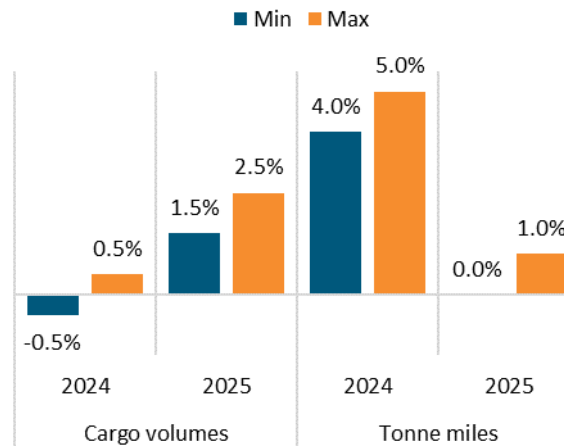
In our main forecast scenario, we **assume that a solution to the crisis in Israel and Gaza may be found this year** which could in turn also bring the Red Sea attacks to an end. The scenario therefore includes an expectation of a return to normal Red Sea and Suez Canal routings throughout 2025, whereas the status quo is expected to last throughout 2024.

The lower than expected oil demand in 2024 impacts both crude and product tankers. In fact, **first half cargo volumes in both sectors have been lower in 2024 than in 2023.**

We do forecast that cargo volumes during the second half of the year will return to growth but full year volumes for both sectors will still end very close to 2023 levels.

However, **longer sailing distances around the Cape of Good Hope** rather than via the Suez Canal means that our tonne miles forecast predicts growth for both sectors in 2024.

### Crude tanker growth



Source: BIMCO

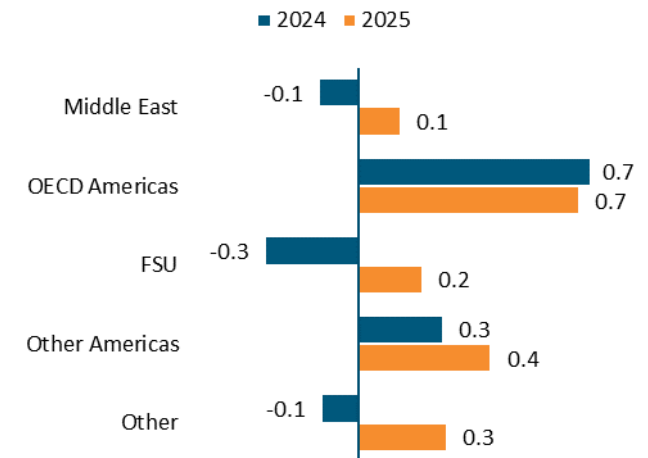
We forecast that **crude tanker cargo volumes growth** will range from -0.5% to +0.5%. For 2025, our forecast is positive growth of 1.5-2.5%. Due to the longer sailing distances, tonne miles are forecast to grow 4.0-5.0% in 2024 whereas the assumed return to normal routings in 2025 results in tonne miles growth of only 0.0-1.0% in 2025.

Compared to our previous forecast, we forecast that the Red Sea attacks and a return to normal

routings will impact sailing distances less. For that reason, we now predict lower tonne miles growth in 2024 but a stronger 2025.

Oil supply is increasing in the Americas while refinery volumes are increasing in Asia. The resulting impact on trade mix causes sailing distances to increase and lessen the impact of the assumed return to shorter Suez Canal routings.

### Oil supply (mbpd y/y)



Source: IEA

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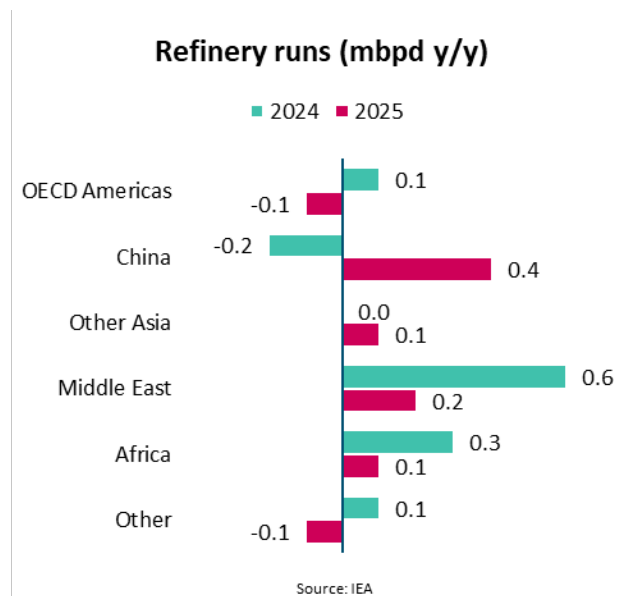
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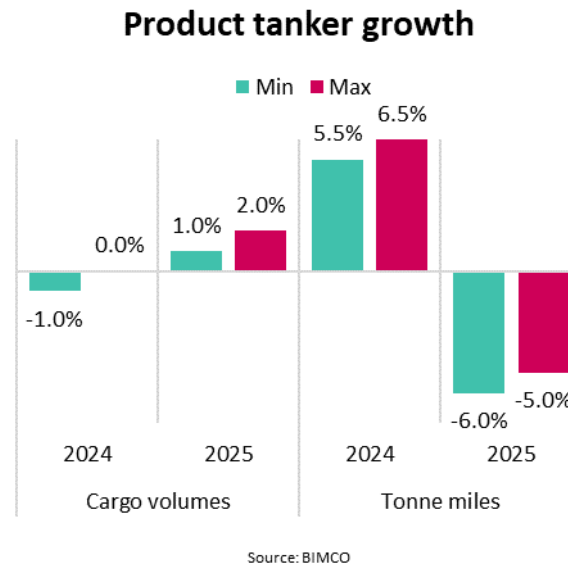
The supply forecast does not take a possible lifting of **OPEC production cuts** into account. Should the cuts be reduced or lifted completely, the increase in supply could contribute to creating a significant oversupply that, in turn, could pressure prices and increase buying and demand for transportation.

China which is why we forecast that crude volumes into these areas will end lower in 2024 than in 2023.

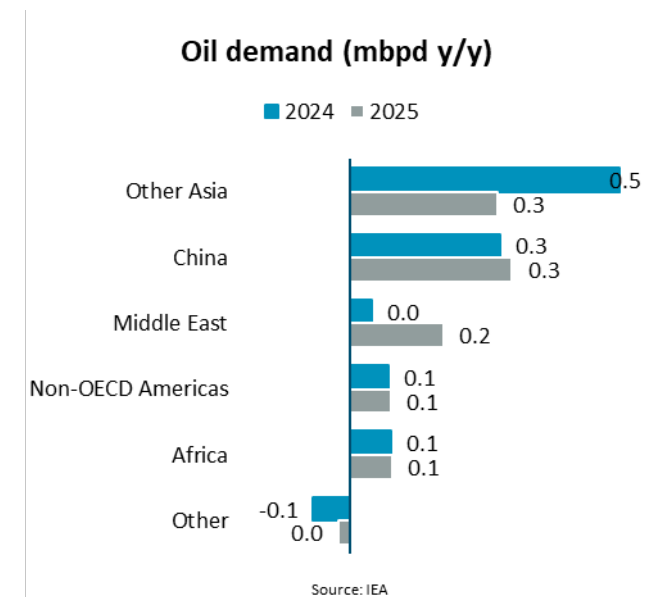
normal routing push tonne miles growth into negative territory in 2025.



It is worth noting that lower refinery margins combined with lower demand have impacted refinery volumes, especially in North Asia and



**Product tanker cargo volumes are forecast to plateau or contract by up to 1.0% in 2024 and grow 1.0-2.0% in 2025.** Longer sailing distances due to the Red Sea attacks pushed tonne miles growth up in 2024. On the other hand, shorter sailing distances due to the assumed return to



The product tanker market is not benefitting from the increasing imbalance between the Atlantic and Pacific in the same way as crude tankers are. Instead, refinery volumes and final demand are both increasing mainly in Asia, which does not result in the same trade mixed increase in sailing distances.



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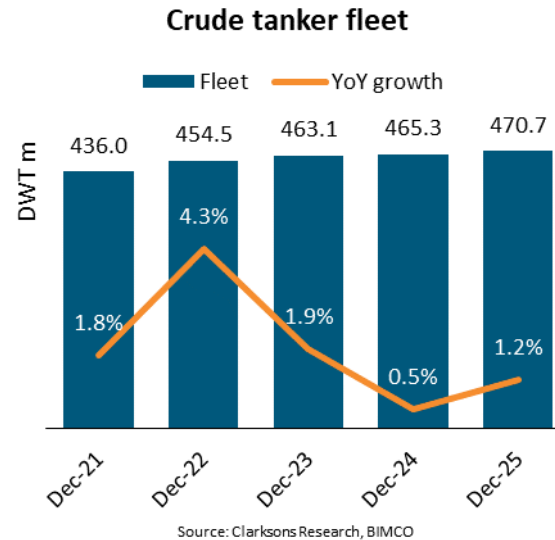
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Should the attacks on ships in the Red Sea continue and not allow ships to return to normal routing in 2025, we forecast that crude tanker tonne miles will grow 2.0-3.0% instead of the 0.0-1.0% in our main scenario. Similarly, we estimate that product tanker tonne miles would grow 1.0-2.0% instead of falling 5.0-6.0%.

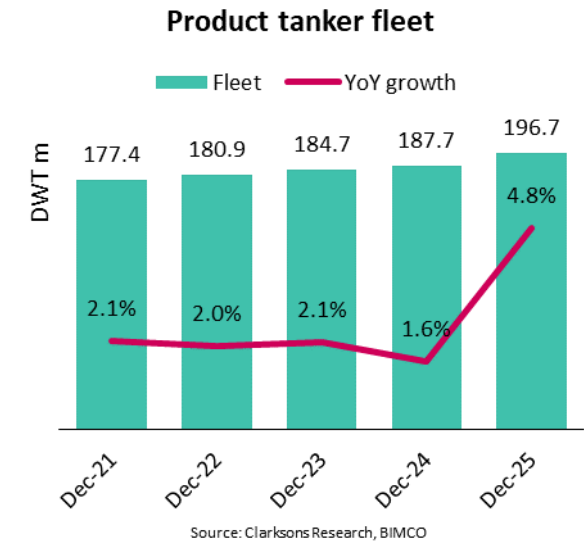
### Supply

In line with our previous forecast, we estimate that the **crude tanker fleet will grow 0.5% during 2024 and 1.2% during 2025.**



**Product tanker fleet growth is estimated to be 1.6% and 4.8% during 2024 and 2025** respectively. Compared to our previous forecast, we now expect slightly slower growth

in 2024 but slightly faster growth in 2025. Total estimated growth during the two years, however, remains unchanged.



Year-to-date, the average sailing speed of both fleets has remained in line with last year so we do not expect that sailing speed will impact supply growth during 2024.

During 2025, we are expecting that product tanker supply growth will outpace demand

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growth. That means that we expect that average product tanker sailing speed could fall slightly, reducing supply growth by 0.5%. We do not expect any significant changes in sailing speed for crude tankers, however.

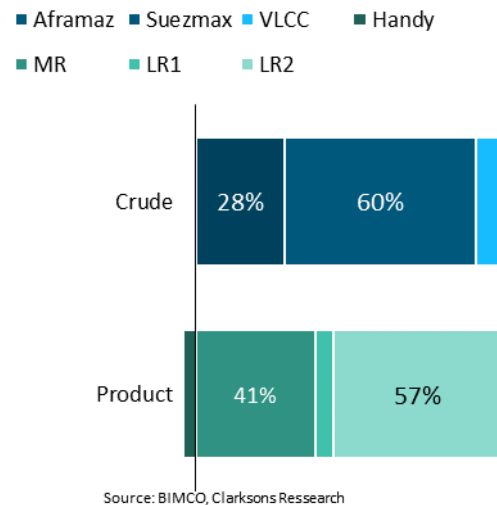
Congestion has also remained stable and is not forecast to impact supply growth significantly in either 2024 nor 2025.

Two segments within both the crude and product tanker fleet are expected to dominate growth. Crude tanker fleet growth will be driven by Aframax and Suezmax segments whereas product tanker fleet growth will be driven by the MR and LR2 segments. These segments will therefore grow significantly faster than the overall fleet.

Whereas the crude tanker fleet is expected to grow 1.6% in total during 2024 and 2025, Aframax and Suezmax segments are forecast to grow 2.8% and 4.5% respectively. Similarly, the product tanker fleet is forecast to grow 6.5% in total during 2024 and 2024 whereas the LR2

segment is forecast to grow 14.2% and the MR segment 5.8%.

### Share of 2024-2025 fleet growth



Though the vast majority of the ships will be delivered after 2025, it is also worth mentioning that combined contracting has reached its highest year-to-date level since 2008. The 13.3m DWT contracted in the product tanker sector is the highest level of year-to-date contracting since 2006 while the

19.4m DWT contracted within crude tanker is the highest since 2016.

Consequently, the order book versus fleet ratio has increased since the beginning of 2024; for the product tanker sector it has moved from 13.6% to 19.6% whereas it has moved from 4.9% to 8.9% for the crude tanker sector.

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