Tanker Shipping Market Overview & Outlook

Record oil demand amplifies market strength

Q3 2023

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Highlights

BIMCO

Demand

The IMF forecasts that the **global economy will grow by 3.0% in both 2023 and 2024.** The current slow-down in the Chinese economy remains a concern.

The crude oil market will be undersupplied during Q3 2023 or for as long as Saudi Arabia's and Russia's production cuts remain in place.

Mainly due to increasing demand in China, **oil consumption is expected to hit new recording highs in both 2023 and 2024**, 101.2 mbpd in 2023 and 102.8 mbpd in 2024.

New oil supply is coming mainly from the Americas while new refinery capacity is added mainly in Asia, causing **longer sailing distances for both crude and product tankers.**

Supply

Due to a small order book, deliveries of new ships remain muted . However, recycling of ships is also low. **Crude tanker fleet is forecast to grow 2.0% in 2023 and 0.4% in 2024.**

The product tanker fleet is estimated to grow 2.2% in 2023 and 1.4% in 2024. Orders for new ships have increased during 2023 but these ships will only start delivery in 2025.

Crude and product tankers have sailed faster in 2023 and experienced less congestion. As a result, we expect **supply to grow 2 pp faster than the fleet in 2023 but 1 pp slower in 2024.**

Supply/demand

Changes in sailing speed result in different supply than fleet growth. **Crude tanker supply is expected to grow 4.0% and -0.6% in 2023 and 2024, product tanker 4.2% and 0.3%.**

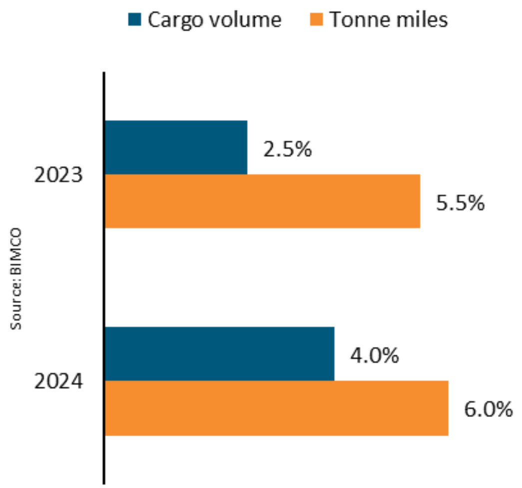
Increased sailing distances and record oil consumption underpin demand. **Crude tanker market will grow 5-6% in 2023 and 5.5-6.5% in 2024, product 5.5-6.5% and 5-6%.**

Limited supply growth combined with record oil consumption and longer sailing distances drive the market. **Already strong markets are expected to be stronger in 2024.**

Demand

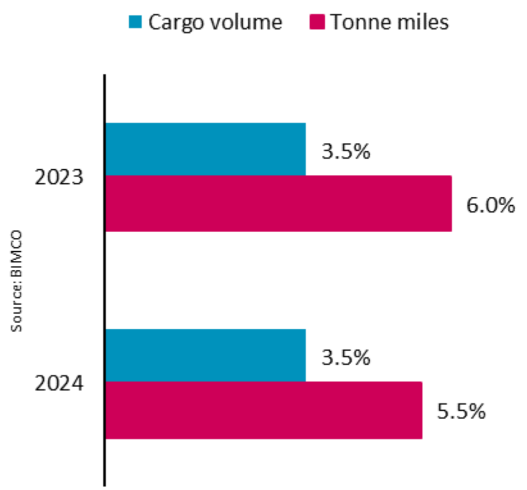
We forecast that the crude tanker market will see cargo volume growth of between 2.0% and 3.0% in 2023 and between 3.5% and 4.5% in 2024. As average sailing distances are increasing, we estimate tonne miles growth of between 5.0% and 6.0% in 2023, and between 5.5% and 6.5% in 2024.

Crude tanker demand growth



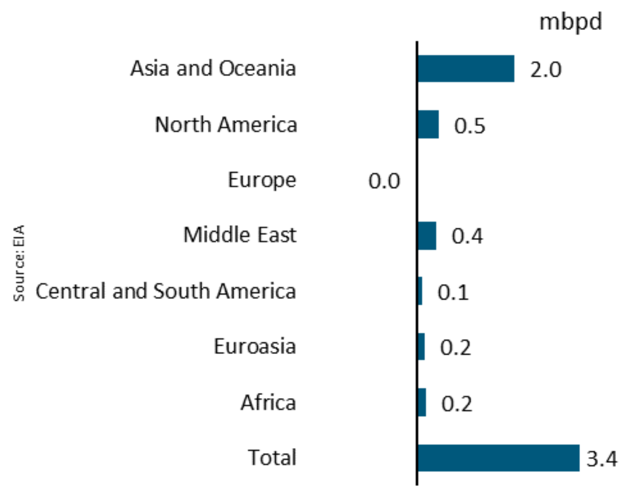
In the product tanker market, we forecast that cargo volume growth will be between 3.0% and 4.0% in both 2023 and 2024. Tonne miles growth is estimated at between 5.5% and 6.5% for 2023 and between 5.0% and 6.0% for 2024.

Product tanker demand growth



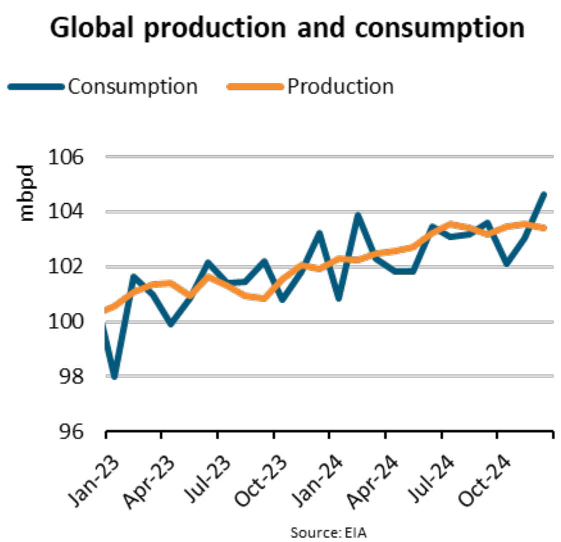
Despite some recent signs of slowing economic activity, China has, as expected, still been the driver of increasing global oil demand. This is due not least to an increase in travel and thus demand for jet fuel. The US Energy Information Administration (EIA) expects that China will account for more than half of the 3.4 million barrels per day (mbpd) increase in global consumption between 2024 and 2022. Global consumption is forecast to hit new record highs of 101.2 mbpd and 102.8 mbpd in 2023 and 2024 respectively.

Oil consumption 2024 vs. 2022



Production cuts by Saudi Arabia and Russia have in the meantime forced crude oil prices up. These cuts do not so far appear to be impacting oil consumption but production may be about 0.5 mbpd lower than consumption during the third quarter of 2023 and as long as the cuts are in place. So far the cuts have been extended to September 2023.

Along with the higher prices, this imbalance is expected to lead to further draws on inventories which in turn will cause a reduction in crude oil shipments. The imbalance could also create a need to rebuild inventories once the market is again in balance, thus generating increased shipping demand.



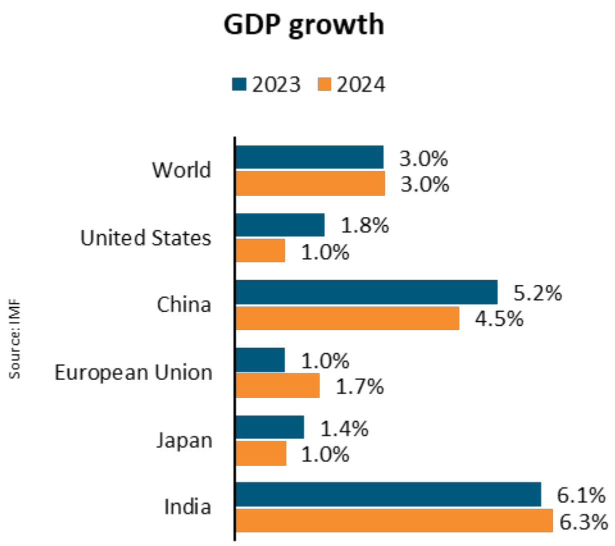
Along with increases in consumption, refinery capacity is increasing in Asia, the Middle East, and Africa. Oil production is in the meantime expected to grow mainly in the Americas, where refinery capacity is not growing. Crude exports from the Americas are therefore expected to grow and make up an increasing share of global seaborne exports. This will also increase average sailing distances and add to tonne miles growth.

As refinery capacity in Europe is also unlikely to increase, we expect that this shift in refinery capacities will also increase sailing distances within the product tanker sector.

We do not expect any changes to sanctions on Russia's oil and oil product exports within the next year and a half. The shifts in trades and increased sailing distances which have resulted will therefore remain.

While oil market dynamics do not appear to indicate major risks to growth, risks in the global economy could be a cause for concern.

The International Monetary Fund (IMF) forecasts growth in global gross domestic product of 3.0% in both 2023 and 2024. This is significantly below trend as the global economy grew at an average annual rate of 3.7% during the 2010s.



Concerns about the slowdown in the Chinese economy remain, and many banks have lowered their forecasts below the Chinese government's growth target of 5.0% for 2023. In the meantime, the IMF predicts growth of 5.2% and 4.5% in 2023 and 2024 respectively.

The Chinese government has taken some steps to underpin activity but has so far refrained from a major intervention. High local government debt, a struggling real estate sector and lower than expected private consumption are concerns.

In the US, the tighter financial conditions and increasing costs to businesses and consumers caused by rising interest rates could also represent a risk. Consumers have nearly spent all the excess savings that they amassed during the COVID pandemic and there is a risk that private consumption will fall as a result.

Germany barely exited recession in the second quarter of 2023 after the two previous quarters saw the economy shrinking. However, year-on-year growth has still been negative year to date. As Germany is the EU's largest economy and lack of growth impacts the rest of the bloc, it could appear that risks remain.

However, the Organisation for Economic Co-operation and Development's (OECD) Composite Leading Indicator (CLI), indicates that the worst could be over for the three countries as well as for the Group of 20 (G20) countries as a whole.

For the G20, the CLI began climbing in January 2023, predicting that economic activity will begin to increase six to nine months later.

In China, the indicator broke the one hundred mark in April 2023 and the economy could begin to grow faster than trend towards the end of the year.

We therefore believe that the global economy is on the right track and that risks in the economy are unlikely to interfere with the expected increases in oil demand, at least for now.

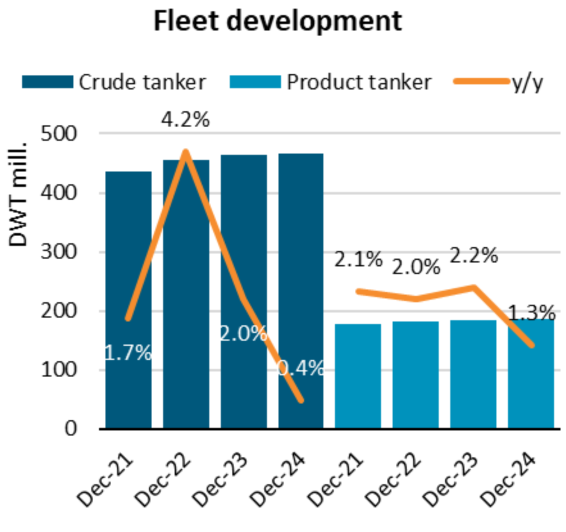
Supply

The crude tanker fleet is expected to grow by 2.0% and 0.4% in 2023 and 2024 respectively.

Contracting of crude tankers has remained subdued and the order book remains low at only 3.7% of the size of the trading fleet. New ship deliveries will therefore remain low for the coming period. However, no crude tankers have yet been recycled in 2023 and we expect recycling to remain low for the rest of the year as well as during 2024.

We now forecast the product tanker fleet to grow by 2.2% in 2023 and 1.3% in 2024, an increase over our previous forecast.

Recycling of ships has so far been significantly lower than we previously estimated and so we have adjusted our estimate down for 2024. Due to increased contracting, the order book has grown to 9.0% of the trading fleet. This will impact fleet growth in the coming years but does not impact the estimates for the 2023 and 2024 as the ships contracted will be delivered later.



Source: Clarksons Research, BIMCO

Year to date 2023, both crude and product tankers have sailed marginally faster than during the same period in 2022: crude tankers by 3.6% and product tankers by 0.5%.

Congestion has at the same time been lower than in 2022 by 1.6% and 2.9% for crude and product tankers respectively.

The changes in sailing speed and congestion have meant that supply in both markets has grown faster than the fleets. We estimate that full year impact for 2023 will be that supply grows 2 percentage points faster than both fleets.

We still expect a reduction in sailing speed during 2024 that will reduce supply growth by 1 percentage point compared to fleet growth.

All in all, we estimate crude tanker supply growth of 4.0% and -0.6% for 2023 and 2024 respectively while the same figures for product tankers are 4.2% and 0.3%.

Supply/demand balance

The Baltic Clean Tanker Index (BCTI) has year to date 2023 fallen 28% compared to the same period last year whereas the Baltic Dirty Tanker Index is down 9%. However, both indices remain higher than the ten year average.

Time charter rates have fallen from the highs achieved in late 2022. Yet they remain significantly ahead of what was achieved during the first seven months of 2022. Despite this, second hand ship prices have continued to increase, confirming both the strength of the market and expectations of future strength.

Supply growth is expected to be limited in 2024, while cargo volumes and tonne miles are forecast to continue to grow. We therefore continue to believe that market conditions will improve although production cuts may limit recovery during the rest of 2023.

Risks to our forecast naturally remain and in particular, the strength of Chinese demand is key. The OECD's CLI indicator predicts that all the major economies will soon see increasing economic activity, and we therefore remain confident that the market will become stronger.