Tanker Shipping Market Overview & Outlook

Trade restrictions continue to drive demand higher

May 2024

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BIMCO

Supply/demand

Crude tanker demand is forecast to outpace supply in 2024 but grow slower than supply in 2025 as ships may return to the Suez Canal and sailing distances shorten.

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

A tightening supply/demand balance should result in **increases in rates and prices in both market in 2024 but could weaken in 2025**.

Demand

The IMF estimates that **the global economy will grow 3.2% in 2024 and 3.2% 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 1.1 mbpd in 2024 and 1.2 mbpd in 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. We estimate that the longer sailing distance will drive 75-80% of demand growth in 2024.

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 1.8% in 2024 but increase to 4.7% in 2025 as deliveries of ships contracted in 2023 begin.

We **expect sailing speed and congestion levels to remain static**. The assumed shorter sailing distances in 2025 and weaker supply/demand balance could reduce speeds in 2025.

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Supply/demand balance

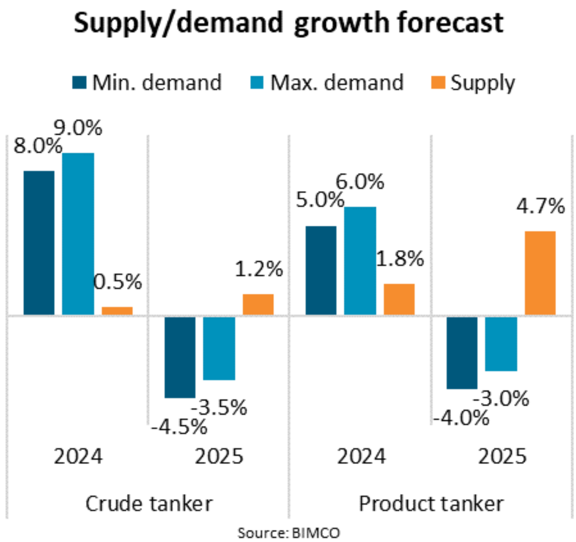
Houthis continue to attack ships in the Red Sea and the Gulf of Aden, and there is no end to the conflict in sight. We therefore base our forecasts on the assumption that rerouting of ships away from the Red Sea and the Suez Canal towards the Cape of Good Hope may impact the market throughout 2024, and that ships may first be able to return to normal routings in 2025.

We estimate that this will increase the **average sailing distances** in 2024 by 7% for crude tankers and 4% for product tankers.

Trade changes due to sanctions on Russian oil exports increased sailing distances in 2023 by 3.0% and 2.3% for crude and product tankers respectively.

Combined, trade restrictions due to war and crises are therefore expected to add 10.2% to crude tanker demand in 2024 compared to 2022, matching the expansion of cargo volumes.

In the product tanker sector, longer sailing distances are, however, expected to surpass volumes as the main driver for growth. Sailing distances are estimated to add 6.4% to demand between 2022 and 2024 while volumes are expected to expand by only 2.2%.



According to our estimates, the longer sailing distances will specifically account for 75-80% of of both sectors' demand growth in 2024. On the other hand, shorter sailing distances in 2025 will be a drag on demand growth.

Relative to the **supply/demand balance** in 2023, we forecast that the crude tanker market will be stronger during both 2024 and 2025 despite the weaker demand in 2025.

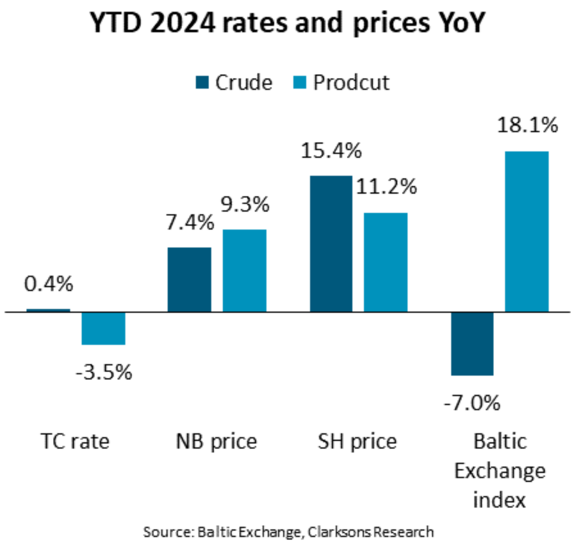
This weaker 2025 demand combined with faster supply growth is, however, expected to result in the product tanker supply/demand balance in 2025 being weaker than it was in 2023.

That said, both sectors have had a weak start to 2024, with tonne miles down 5-6% compared to the same period last year .

This has also reflected on **time charter rates and the Baltic Dry and Clean Tanker Indices**, which have all started 2024 weaker than in 2023. However, they remain 40-80% ahead of the past ten years' average as well as ahead of the 2023 full year level.

On the other hand, **ship prices** have stayed strong with year-to-date newbuilding prices being 33% higher than full year 2023 price averages, and prices for five-year-old ships increasing 60%.

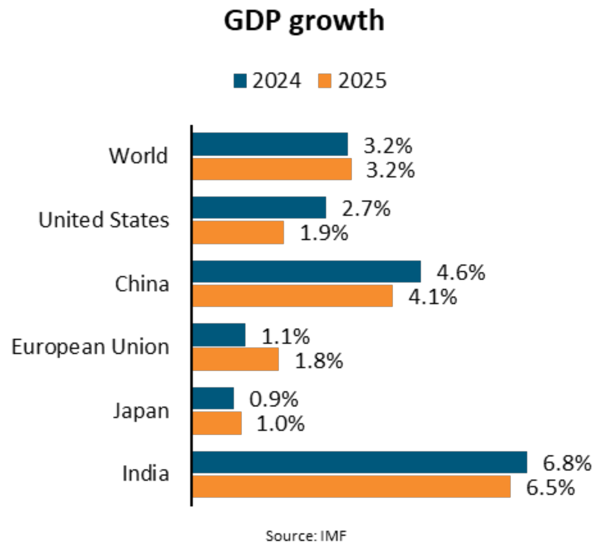
Prices for five-year-old secondhand ships have in fact increased by so much that they are currently valued at 92-93% of newbuilding prices, with secondhand LR2s and Aframaxes valued the same as the equivalent newbuilds.



Given our supply and demand growth forecast, it goes without saying that we expect the markets to be stronger on average in 2024 than in 2023 whereas some weakening can be expected in 2025.

Macro environment

Houthi attacks on ships in the Red Sea continue and many shipowners therefore continue to avoid the area. As no resolution to the conflict is in sight, we assume that the attacks may impact shipping throughout 2024 and that ships may be able to return to normal routings in 2025.



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According to the International Monetary Fund's (IMF) estimates, the **global economy** will grow by 3.2% in 2024 and 2025 just as it did in 2023.

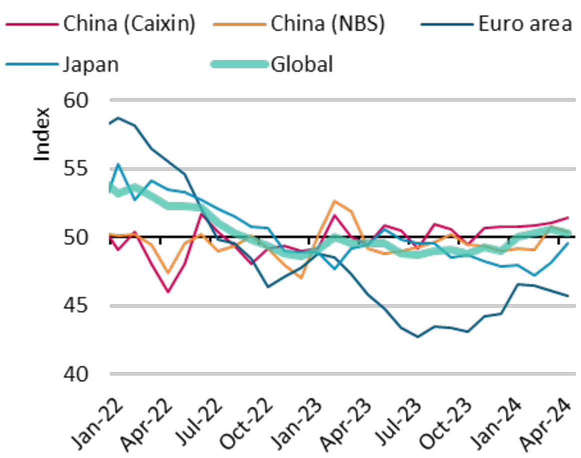
However, of the world's five largest economies, only the European Union is expected to see faster growth during 2024-2025 than it did in 2023. That will contribute to the whole Europe & Mediterranean region being forecast to grow faster than in 2023. In addition, South & West Asia, South & Central America and Sub-Saharan Africa are expected to see accelerating growth.

Manufacturing PMIs meanwhile highlight how companies in the eurozone continue to struggle, contributing to lower gasoil demand. Fortunately, the global manufacturing PMI has been marginally above 50 (expansion) after spending most of 2023 below 50 (contraction).

Similarly, the manufacturing PMIs for China from both NBS and Caixin have been above 50 for the last two months.

Though neither figure points to significant expansion in the manufacturing sector, they do at least point to a stabilisation of global activity and some expansion in China.

Manufacturing PMI



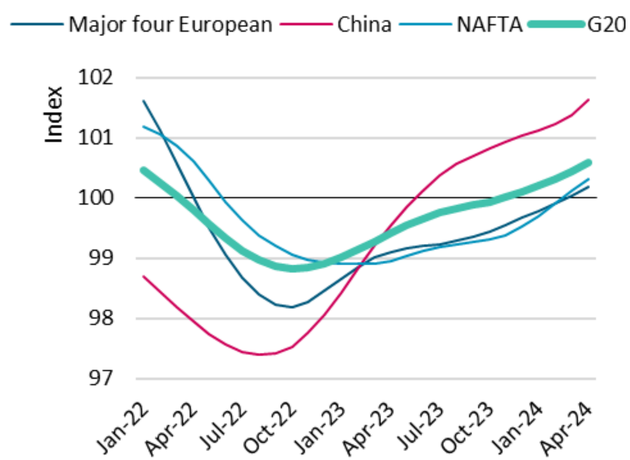
Source: S&P Global, National Buraeu of Statistics of China

At the same time, the Organisation for Economic Co-operation and Development's (OECD) **Composite Leading Indicator** (CLI) for the G20 countries has been slightly above 100 for the past six months, indicating that economic growth in 6-9 months' time should as a minimum be in line with the long-term trend.

During the previous 19 months, the CLI was below 100.

In China, the CLI indicates a significantly brighter outlook than previously. After bottoming out at 97.4 in mid 2022, the CLI has improved in each of the following 20 months and broke the 100 mark in mid 2023, now standing at 101.6.

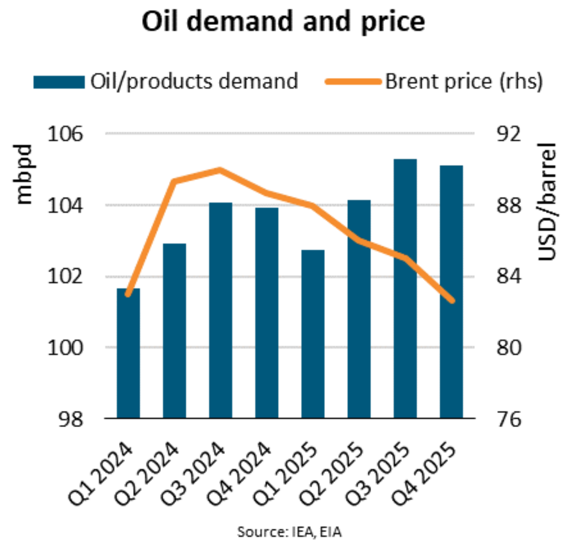
Composite Leading Indicator



Source: OECD

The International Energy Agency (IEA) predicts that conditions will support an expansion of

global demand for oil and oil products. They estimate that demand will expand 1.1 mbpd (million barrels per day) in 2024 and 1.2 mbpd in 2025. Demand of 102.1 mbpd in 2023 is therefore expected to be followed by 103.2 and 104.3 mbpd in 2024 and 2025 respectively.

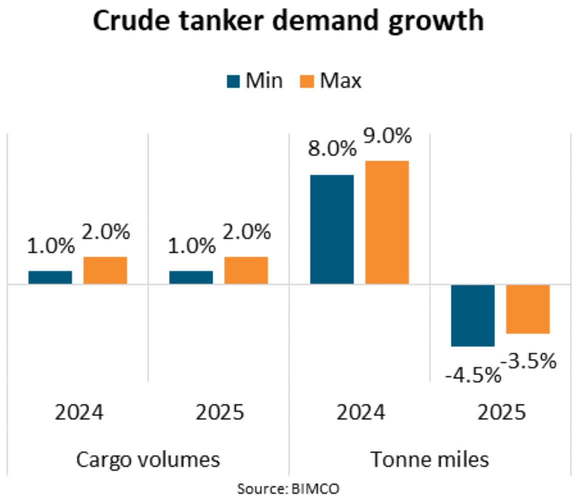


According to the US Energy Information Administration (EIA), oil prices will peak at USD 90/barrel during the third quarter of 2024 whereafter they are expected to fall gradually to USD 82/barrel during the fourth quarter of 2025.

Demand

We forecast that **crude tanker cargo volumes** will grow 1.0-2.0% year-on-year in both 2024 and 2025.

The average sailing distance is predicted to increase 7% in 2024 due to ships avoiding the Red Sea and the Suez Canal but fall approximately 5.5% in 2025 as we assume that ships may be able to return to normal routings.



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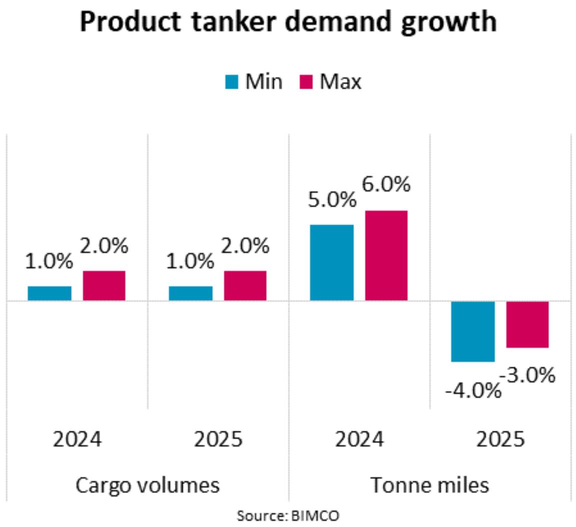
We therefore expect that **tonne miles demand** will grow 8.0-9.0% in 2024 but fall 3.5-4.5% in 2025.

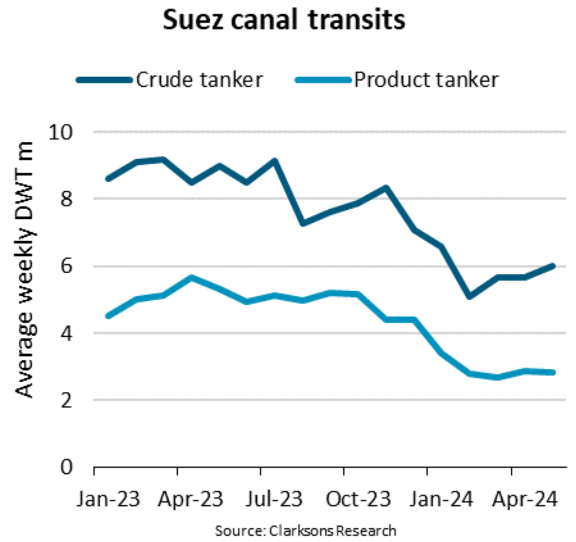
Product tanker cargo volumes are also forecast to grow by 1.0-2.0% in both 2024 and 2025.



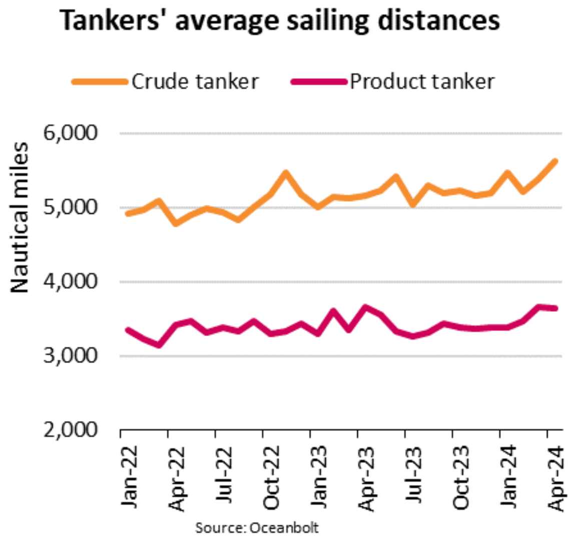
Product tanker tonne miles demand is also forecast to be impacted by changes in sailing distances. We predict that distances will increase 4.0% in 2024 and fall 5.0% in 2025.

As a result, tonne miles demand is forecast to grow 5.0-6.0% in 2024 but fall 3.0-4.0% in 2025.

Transits of the Suez Canal appear to have settled at a level 35-40% lower than last year for crude tankers and 45-50% lower for product tankers.

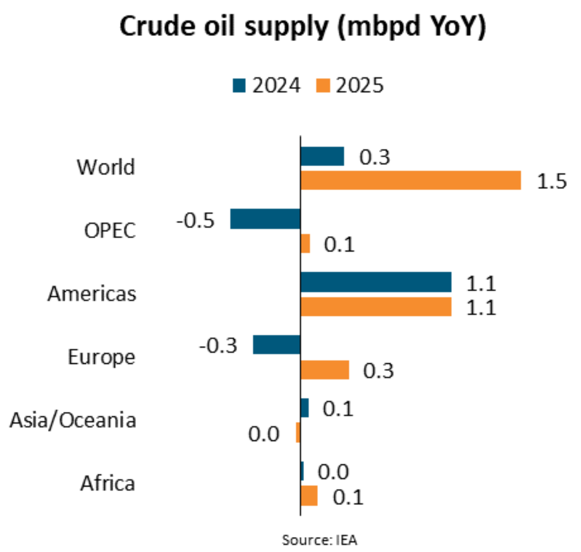


The lower number of transits of the canal have year to date contributed to the increase in the average sailing distance for both crude and product tankers compared to last year.



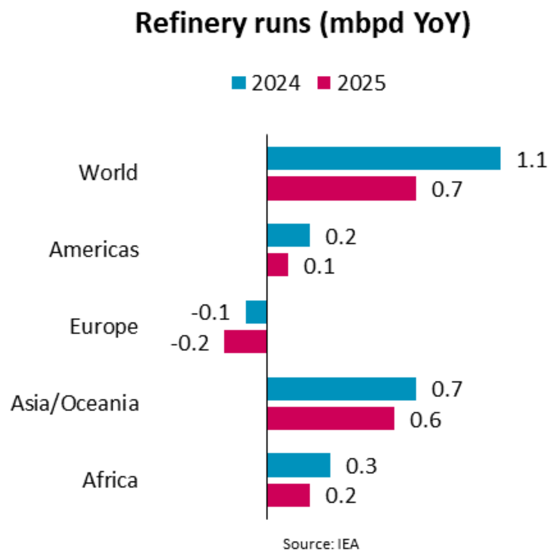
Geographical changes in oil supply, refinery runs and final demand will meanwhile also contribute to increasing sailing distances. In 2025, we predict that as a result, average sailing distances for crude tankers will end nearly 1% higher than in 2023 whereas it will fall nearly 1% for product tankers.

The IEA continues to predict that increased **crude oil production** will come mainly from the US, Canada, Brazil and Guyana. In total, supply from the Americas (excluding Equador and Venezuela) is forecast to increase from 33.6 mbpd in 2023 to 34.6 mbpd and 35.7 mbpd in respectively 2024 and 2025.



The opening of Mexico's new Olmeca refinery is however expected to limit Mexico's crude oil export whereas the finalisation of the Trans Mountain Pipeline Expansion Project in Canada will increase seaborne export capacity in the Pacific.

The IEA forecasts that oil supply from OPEC will be 27.0 mbpd in both 2024 and 2025, down from 27.4 mbpd in 2023.



The IEA's latest forecast, however, reaffirms that **refinery runs** are expected to increase mainly in Asia/Oceania and Africa. Combined, the two regions' refinery runs are expected to expand by 0.8 mbpd and 1.0 mbpd in respectively 2024 and 2025. Globally, refinery runs are estimated to increase by 0.7 mbpd in 2024 and 1.1 mbpd in 2025.

Specifically, the ramp up of volumes through Nigeria's Dangote refinery and the opening of the Yulong refinery in China towards the end 2024 will contribute to the rise in refinery runs.

Despite continued Ukrainian attacks on Russian oil storage and production as well as refineries, the IEA expects that Russian refinery runs will ramp up during the rest of 2024 and match 2023 levels in both 2024 and 2025. Elsewhere in Europe, more capacity closures are predicted.

According to the IEA, **global oil and products demand** will expand by 1.1 and 1.2 mbpd in 2024 and 2025 respectively. Nearly 40% of this expansion is expected to be driven by increasing demand for petrochemicals.

On the other hand, 2024 may represent **peak gasoline demand** because a slight reduction in demand is forecast for 2025 due to more efficient gasoline-powered cars and increasing numbers of electric vehicles (EVs). EVs are

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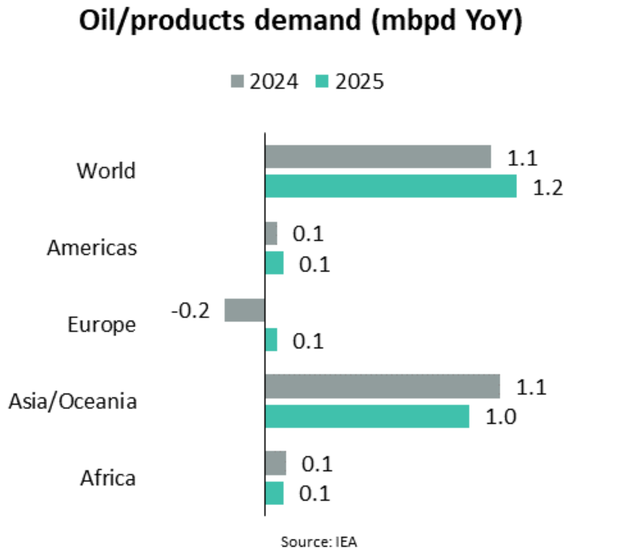
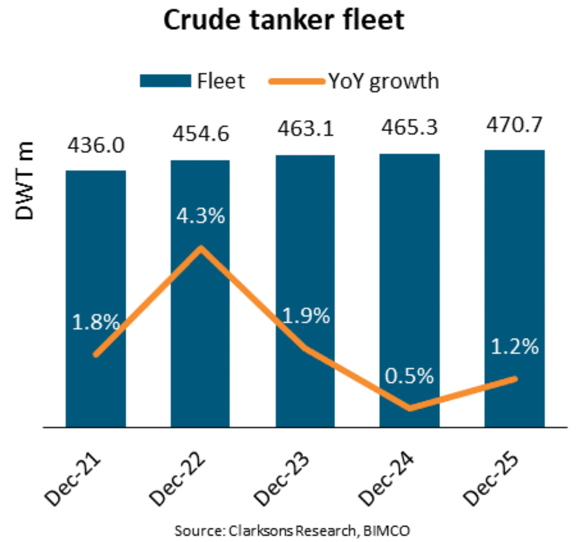
estimated to have displaced oil demand of 0.8 mbpd in 2023 and this may increase to between 5.4 mbpd and 8.2 mbpd by 2030 depending on how sales develop.



Asia/Oceania remains the main demand driver from a geographical perspective, accounting for nearly 100% of the demand increase. Increased demand in China is expected to account for 40% of the demand increase between 2023 and 2025. This is a reduction from the 75% that Chinese demand contributed to growth between 2023 and 2022 following the end of COVID mobility restrictions. In particular, India and Saudi Arabia are contributing a larger share of the estimated demand growth between 2023 and 2025.

Supply

We estimate that the **crude tanker fleet's** capacity will grow 0.5% in 2024 and 1.2% in 2025.



Since the 2nd quarter of 2023, there has been renewed interest in contracting of new ships. The order book has increased 160% to reach 34.3m deadweight tonnes and now equals 7.4% of the trading fleet.

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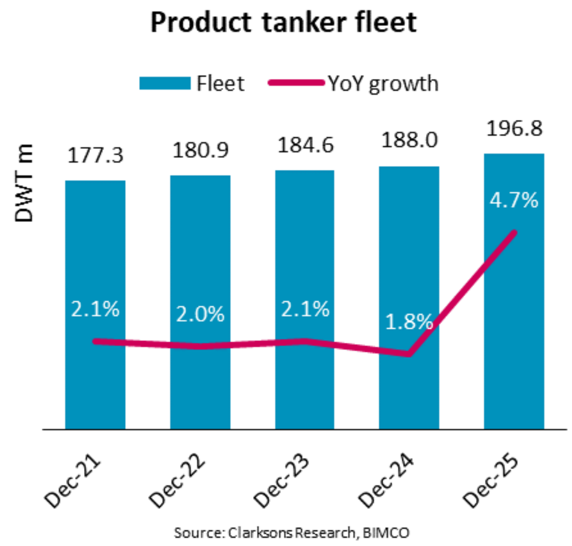
However, most of the ships contracted during this period will only be delivered in 2026 and beyond. Deliveries are therefore expected to remain relatively low during 2024 and 2025, reaching 2.6m and 6.2m deadweight tonnes respectively.

Suezmax ships make up more than 50% of the deadweight tonnes to be delivered during 2024 and 2025 and are therefore expected to see the fastest capacity growth: 4.5% during the two years. Aframax capacity is estimated to grow 2.8% during the two years and VLCC capacity should grow by 0.3%.

We believe that recycling activity will remain low during both 2024 and 2025 as market conditions should remain quite strong. We forecast recycling of 0.7m deadweight tonnes in 2024 and 0.8m deadweight tonnes in 2025.

The **product tanker** market has also seen renewed contracting interest since 2023 and the order book now equals 15.1% of the trading fleet's capacity, up from 6.0% at the beginning of 2023.

Shipowners have been able to secure early delivery slots for many of the new product tanker orders and more than one third of the deadweight tonnes will be delivered during 2025, with deliveries climbing to 10.9m deadweight tonnes in 2025 from 4.0m in 2024.



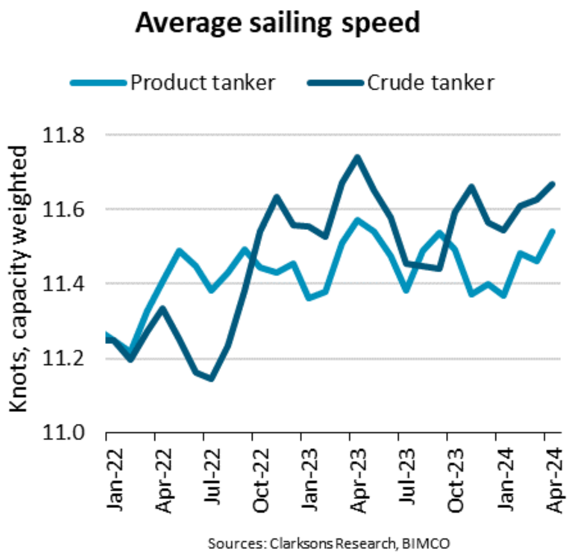
Unlike the crude tanker fleet, the product tanker fleet will therefore already see increasing growth in 2025. We forecast capacity growth of 1.8% in 2024 and 4.7% in 2025.

Recycling is expected to increase slightly in 2025 but remain at a low level. We have forecasted recycling of 0.3m deadweight tonnes in 2024 and 0.6m in 2025.

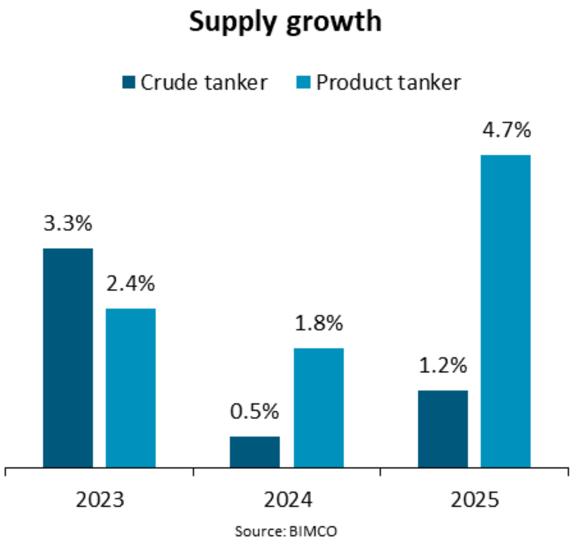
LR2s are expected to make up more than 50% of the deadweight tonnes delivered during 2024 and 2025. This segment will therefore see the fastest capacity growth. We predict that LR2 capacity will grow 14.2% between 2023 and 2025 and that MR and LR1 capacity will grow by 5.4% and 2.7% respectively. We expect no growth in the handysize segment, and capacity there may even reduce marginally.

Supply is expected to grow in line with fleet growth in 2024 whereas it may grow up to 1 percentage point slower than the fleet in 2025.

Average sailing speed has year to date only changed marginally compared to last year. Sailing speeds may increase during the rest of year as demand increases but we do not believe that it will have a significant impact on supply growth.



As we assume that ships may return to normal Suez Canal routings in 2025, average sailing distances will reduce and demand will grow less than cargo volumes. Therefore, sailing speeds could fall and reduce supply by up to 1 percentage point compared to fleet growth. For now, we have however decided not to include this effect in our prediction of supply growth.



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

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