POTEN TANKER OPINION

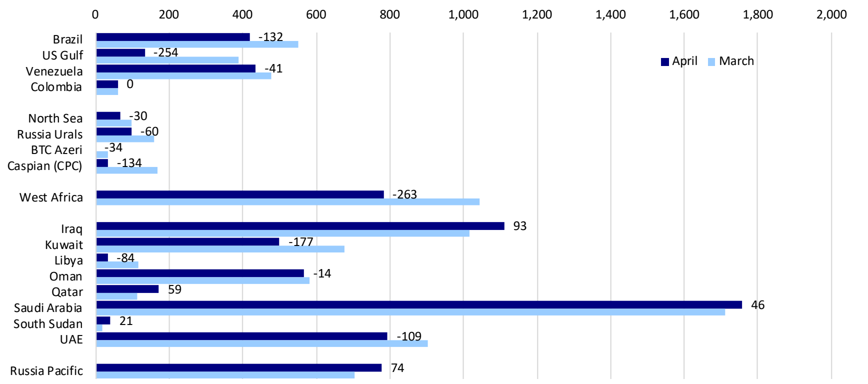
Pandemic Headwinds

Lockdowns lead to oil demand slowdown

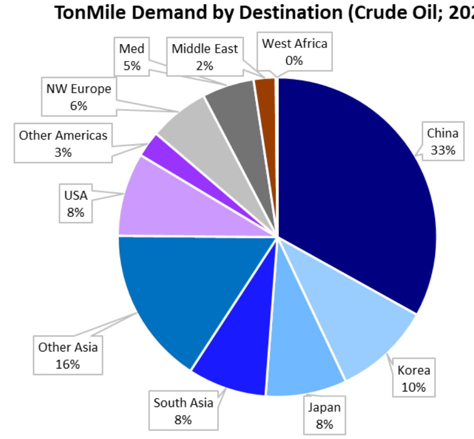
Since the first outbreak of Covid-19 in Wuhan in late 2019, China has opted for an aggressive policy to fight the virus. It isolated Wuhan and forced the citizens of the city to stay home for several weeks in early 2020 to prevent the spread of the virus and has targeted a Zero-COVID policy since then. This policy was successful during 2020 and 2021 as the rest of the world went through several waves of infections and China was relatively unaffected. Since then, several vaccines against COVID-19 have been developed and much of the global population has been vaccinated. Many Western countries started relaxing their COVID protocols to varying degrees as the population became increasingly unhappy and vaccination rates reduced the risk significantly. However, China did not change its policies. In the first quarter of 2022, as more infectious COVID strains have started spreading in China, the country maintained its aggressive approach by ordering lockdowns in several large cities and other areas in the country. These restrictions affect both global supply chains as well as local oil demand. China is the second largest oil consuming country and the leading importer of seaborne crude oil and by far the biggest source of tanker demand. This week, we will look at the impact of China's lockdowns on the tanker market.

In their latest report, the IEA (using Blavatnik School of Government data) estimates that in March 2022, 220 Million people lived in areas affected by school closures, large scale workplace stoppages and stay at home orders. Beijing and Shanghai get the most attention, but many other areas in the country are also affected. Due to the magnitude of these restrictions, they reduced expected oil demand by 730,000 barrels per day (B/d) in March and they expect a reduction of 925 Kb/d in April and 690 Kb/d in May. As many flights are cancelled, IEA reduced the jet fuel demand by 200 Kb/d and gasoil demand by 550 Kb/d in March as manufacturing and transportation are cut back.

China's reduction in demand translates directly into a slowdown in seaborne oil imports. The first graph shows the Chinese crude oil imports for March and April as estimated by Bloomberg based on AIS data. The data shows that long-haul imports in particular suffered from reduced Chinese demand. Import from the Americas declined by 427 Kb/d and from West Africa by 263 Kb/d, while imports from the North Sea and the Med declined by a total of 258 Kb/d. Medium-haul Middle East imports dropped by 165 Kb/d, while short-haul imports from Far East Russia increased by 74 Kb/d (an Aframax trade). In total Chinese imports declined by 1,037 Kb/d in April compared to March. Because most of the declines are concentrated on long-haul trades, the VLCCs have been most affected.



Source: Bloomberg



Source: Lloyd's List Intelligence

In 2021 China represented about 33% of global crude oil related TonMile demand, (Graph 2) although this reflects to some degree the demand impact from COVID in Western countries. This clearly shows the importance of China and of Asia in general for the oil tanker market.

Over the last several weeks, oil prices have operated under a 'Tug-Of-War' between the upward pressure of increasing sanctions on Russian oil exports by Western economies and the downward pressure of the oil demand impact of Chinese COVID measures. China is normally a price sensitive buyer; they increase their purchases when oil prices are down and they lower imports when prices are up and their inventories allow them to delay imports. In addition to the impact of the lockdowns, rapidly rising prices may have discouraged Chinese oil imports as well.

For now, the government seems to insist on continuing their Zero-Covid approach, but expectations are that demand in China will recover relatively quickly, once the COVID restrictions are lifted. TonMile demand could benefit if Europe further limits (or even bans) Russian oil imports and China buys more discounted crude oil from Russia, which will most likely come from the Baltic and Black Sea, as pipeline capacity limits how much Russia can move to their East Coast. Once demand recovers, Chinese imports and tanker demand will return, providing a boost to VLCC demand in particular.