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POTEN TANKER OPINION

Murky Waters

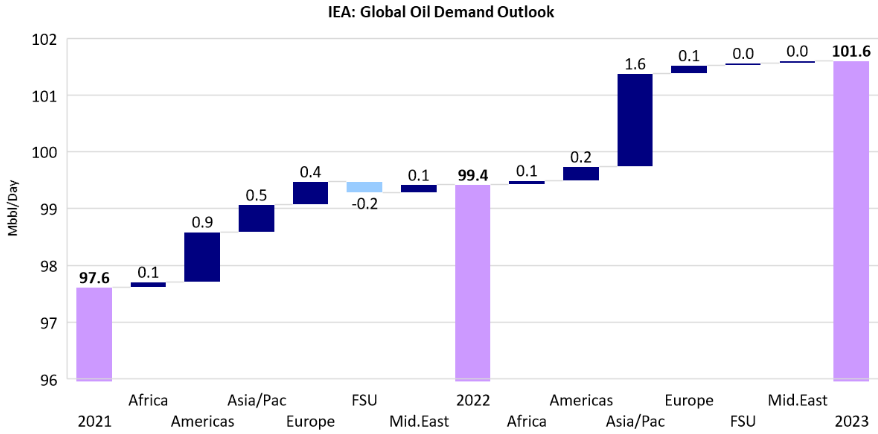
Oil Market Outlook for 2023

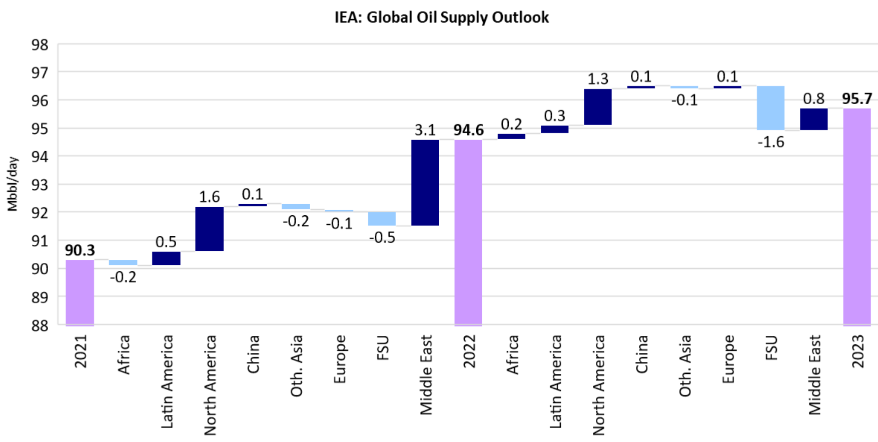
This week, the International Energy Agency (IEA) published its June Oil Market Report. The June edition is traditionally the first time they provide their view on the next year. The US Energy Information Administration (EIA) has produced a monthly outlook for 2023 since the beginning of the year in their Short Term Energy Outlook. This week we will look at both of these oil market outlooks and try to figure out what they would mean for the tanker market.

On the oil demand side, there are two primary market drivers: The recovery of Chinese oil demand as COVID lockdowns wind down and the impact of high energy prices and a possible economic slowdown. According to the IEA, Chinese lockdowns have had a major impact on Jet Fuel (-610,000 barrels per day (b/d) and gasoline demand (-300 Kb/d) in April and on other products (-780 Kb/d). China has started to lift restrictions and IEA expects this to continue over the summer months and into the second half of the year. For 2023 they expect demand to increase by 930 Kb/d to reach 16.3 Mb/d. The EIA expects Chinese demand to grow by 500 Kb/d in 2023, compared to 2022; but unfortunately, they provide less narrative on their international outlook. For OECD Americas and Europe, IEA forecasts growing demand as high energy prices limit road transportation demand but pent-up demand for travel increases Jet Fuel demand. The IEA acknowledges an increased risk of economic slowdown because of higher energy prices and fiscal tightening by central banks to fight inflation. The EIA forecasts 230 Kb/d oil demand growth for 2023 in North America and 30 Kb/d growth for Europe.

The IEA estimates global oil production to increase by 4.4 Mb/d in 2022 and by another 1.1 Mb/d in 2023. The EIA has similar expectations for 2022 with growth of 4.5 Mb/d but is more optimistic for 2023 with 2.0 Mb/d of growth. According to the IEA, most of the expected oil production growth comes from outside OPEC, mainly in North America. Both the US (+1.1 Mb/d) and Canada (+0.2 Mb/d) are expected to increase production in 2023. Additional production growth in the Atlantic basin is expected in Brazil (+180 Kb/d) and Norway (+190 Kb/d).

OPEC+ front loaded its scheduled production growth, but only Saudi Arabia and the UAE have spare capacity. Libyan production is more of a question mark after recent civil unrest. However, both Nigeria and Angola are facing operational problems to meet their quota allocation and production is expected to slide further in 2023. Once the 2020 OPEC+ production cuts are unwound, very little spare capacity will remain.





Source: International Energy Agency

The key supply uncertainty is in Russia. Even though the IEA and EIA have a similar estimate for the production decline for Russia: 2.1 Mb/d (IEA) vs 2.0 Mb/d (EIA), both agencies state that there is significant uncertainty in these numbers, especially around the impact of the insurance ban on Russian cargoes, which was not yet reflected in the EIA outlook.

As far as the tanker market is concerned, there are also significant unknowns. These oil market changes will likely have a major impact on crude and products flows, but both the impact and the duration are hard to predict. Europe will likely buy more medium haul crude from the Americas and West Africa to replace Russian imports, affecting long haul sales to Asia by these exporters.

The big question is how successful Russia is in selling crude to Asian buyers, most likely in India and China. This trade would be positive for Suezmax tankers for Black Sea exports and for Aframaxes (for reverse lightering) and VLCCs for Baltic Sea exports. Depending on the implementation and effectiveness of the insurance ban, we could end up with a much expanded 'rogue' tanker fleet operating in Russian, Iranian and Venezuelan trades.

If Russia manages to divert its export volumes to Asia, the changes should be a net positive for tankers. However, if insurance bans limit Russian exports and production falls significantly, the crude tanker market could be in trouble with much higher bunker prices and lower trade volumes.