Global Energy Weekly

Freight fright

19 December 2023

Commodities
Global

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Acronyms list on the last page

'23 was bullish dirty tankers & bulkers, bearish containers

Tanker and bulker markets weakened dramatically in 1H23, driven by Russian sanctions, OPEC+ cuts, and a soft China re-opening, among other things. By mid-year, Baltic Clean, Dirty, and Dry indices had fallen ~70%, 45%, and 30%, respectively from end-22 levels. Increased product trade and Panama Canal congestion helped push those indices roughly 50%, 8%, and 120% higher since then. Following a 75% collapse in 2022, containership earnings were subdued in 1H23, rising just +10% versus end-22 levels. Earnings have softened since then, dropping nearly 40% on a continued onslaught of new capacity.

Container freight likely to sink in '24, bulkers buoyant...

The containership orderbook swelled during the pandemic as sky high container rates stoked newbuild demand. Since peaking in 2022, earnings have been quartered, but the hangover will likely intensify, with the containership fleet growing 10% YoY in 2024 and 6% in 2025, growth rates that should outpace demand. Container rates should fall further this year to encourage idling and scrappage. Meanwhile, seasonal 1Q weakness in bulker pricing may be partially offset by further reductions in Panama Canal transits and a slim orderbook will leave little slack for shippers should demand pick up this year.

...dirty tankers supported, and clean tankers bearish but...

Dirty tanker rates suffered in 2023 as OPEC+ cuts progressively deepened, but the group's November decision may not yield material additional reductions in 1Q24. We see some support for dirty freight on low fleet growth and rising non-OPEC+ exports from the US, Brazil, Guyana, and Canada. Those barrels will supplant exports soon to be internalized by new refineries in Nigeria, Angola, and Iraq to meet domestic fuel demand (see Waiting for Dangot(e)). Consequently, product flows may soften in 2024-25, just as new deliveries hit the water and global demand growth slows, pressuring clean freight.

...Red Sea and Panama threaten to paint all freight bullish

The Panama Canal and Suez Canal, key chokepoints for global trade, are causing delays, diversions, and higher freight rates. Drought has cut Panama Canal transits, while rocket attacks recently drove Maersk and others to pause Red Sea transits. Our Shipping Equity Research team pointed out that these bottlenecks will impact container trade most, with 8.1% of global container volume traversing the Panama Canal and 28% flowing through the Suez. A closure of these key throughfares would boost container demand by 1.5% and 7% respectively (see Another look at the tail risks of Suez and Panama Canal disruptions). For tankers and bulkers, the closure of the Suez Canal would add roughly 30% to transit distances and boost fleet demand between 1-2%, according to their estimates. Longer supply lines tie up more vessels, boost freight rates, widen origin-destination spreads, and lift bunker demand. Furthermore, a worsening supply chain may be bullish goods demand as companies over-order to ensure adequate inventories.

Exhibit 1: BofA Commodity Research Themes and Outlook

Key takeaways

	View	Recent reports
Macro outlook	■ Our economists see world GDP rising 3% in 2023 and expanding by 2.8% in 2024.	
WTI and Brent crude oil	■ We project Brent and WTI to average $90/bbl and $86/bbl, respectively, in 2024. ■ The global oil balance should stay tight in 2024, as OPEC+ withholds more supply from the market to counteract slowing demand growth ■ We forecast global demand growth of 2.1mn b/d YoY in 2023 and 1.1mn b/d in 2024. ■ Non-OPEC supply should grow roughly 2.2mn b/d YoY in 2023 and 1.24mn b/d in 2024. ■ We project total US crude and NGL supply to rise 1.4mn b/d in 2023 and 590k b/d in 2024. ■ OPEC crude oil supplies are set to fall 460k b/d in 2023 and 310k b/d in 2024 as OPEC+ actively manages balances	• The grind of the oil bulls 26 September 2023 • Money breaks oil's back 08 May 2023 • OPEC+'s whatever it takes moment 05 April 2023 • Global Energy Paper: Medium-term oil outlook 26 February 2023 • $80 is the new $60 for oil 16 September 2022 • Oil demand has a supply problem 27 May 2022
Atlantic Basin oil products	■ Refined product markets face risks from OPEC+ cuts, a looming recession, and the pace of global refining capacity growth. ■ We forecast RBOB-Brent to average $13/bbl in 2024, and we see ULSD-Brent cracks averaging $26/bbl over the same period. ■ OPEC+ cuts, rising complex refining capacity, lower gasoline and diesel cracks create upside for 3.5% fuel oil cracks, which we see averaging -$12/bbl in 2024.	• Waiting for Dangot(e) 31 October 2023 • Diesel weasels out of a cyclical downturn 29 August 2023 • In the fuel oil market, high sulfur is king 31 July 2023
US natural gas	■ US gas supply and demand growth should hit 1.6Bcf/d and 2.6Bcf/d YoY in 2024, pushing stocks to 3.95Tcf by October. ■ We forecast US Henry Hub natural gas prices will average $3/mmbtu in 2024	• US nat gas rollercoaster nears the bottom 17 February 2023
LNG	■ LNG supply growth is manageable from historical view at 10MMT in 24 and 16MMT in 25, leaving demand to dictate future price path ■ JKM and TTF should average $15/MMBtu and €50/MWh in 2024, but they could easily hit $25/mmbtu or €100/MWh on cold weather	• Liquid gas can float and fly. So can oil 17 October 2023 • LNG is now a buyer's market 17 April 2023
Thermal coal	■ Seaborne coal prices pulled back on softer balances. Yet, China has come back in earnest, more than doubling thermal coal imports ■ We are constructive in 2024 on strong Asian demand and declining Russian supply	• China coal floors global gas 05 September 2023 • King coal loses its crown 31 March 2023

Source: BofA Global Research estimates

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Exhibit 2: BofA Global Research Commodity Price Forecasts

(period averages)

	units	1Q23F	2Q23F	3Q23F	4Q23F	2023F	1Q24F	2Q24F	3Q24F	4Q24F	2024F
WTI Crude Oil	($/bbl)	76	74	82	82	78	86	88	86	84	86
Brent Crude Oil	($/bbl)	82	78	86	86	83	90	92	90	88	90
US NY Harbor ULSD (HO) Cracks to Brent Crude Oil	($/bbl)	41	25	40	37	36	30	25	25	25	26
US RBOB Cracks to Brent Crude Oil	($/bbl)	23	31	29	7	22	11	21	14	7	13
NWE Low Sulphur Gasoil Cracks to Brent Crude Oil	($/bbl)	31	17	32	29	27	23	20	20	19	21
NWE Eurobob Cracks to Brent Crude Oil	($/bbl)	15	22	27	7	18	5	14	10	3	8
NWE 1% Residual Cracks to Brent Crude Oil	($/bbl)	-13	-8	-3	-7	-8	-6	-5	-5	-5	-5
NWE 0.5% Residual Cracks to Brent Crude Oil	($/bbl)	2	2	4	3	3	2	2	2	2	2
NWE 3.5% Residual Cracks to Brent Crude Oil	($/bbl)	-23	-11	-4	-14	-13	-13	-12	-12	-12	-12
US Natural Gas	($/MMBtu)	2.74	2.32	2.66	3.15	2.72	2.90	2.50	3.00	3.60	3.00
Thermal coal, Newcastle FOB	($/t)	253	160	147	145	176	148	148	151	153	150
Aluminium	$/t	2,401	2,260	2,160	2,250	2,268	2,250	2,500	2,750	2,750	2,563
Copper	$/t	8,941	8,461	8,367	8,000	8,442	8,000	8,500	8,750	9,250	8,625
Lead	$/t	2,137	2,118	2,171	2,200	2,156	2,000	2,000	2,000	2,000	2,000
Nickel	$/t	25,973	22,277	20,392	18,500	21,786	18,500	18,500	19,000	19,000	18,750
Zinc	$/t	3,132	2,527	2,435	2,500	2,648	2,500	2,500	2,250	2,250	2,375
Gold	$/oz	1892	1977	1927	1900	1924	1950	1950	2000	2000	1975
Silver	$/oz	23	24	24	23	23	23	23	24	24	23
Platinum	$/oz	995	1,027	932	950	976	1,000	1,000	1,100	1,100	750
Palladium	$/oz	1,568	1,445	1,254	1,250	1,379	900	800	700	600	750

Source: BofA Global Research estimates

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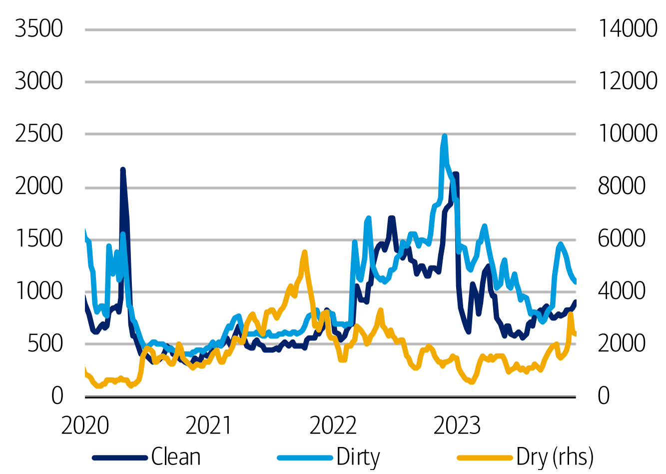
Freight fright

Container freight moved opposite bulkers/tankers in ’23, up in 1H, down in 2H

The tanker and bulker markets weakened substantially in the first half of 2023, as softer than expected sanctions on Russia, OPEC+ cuts, and a slower than expecting re-opening in China collided with seasonal price weakness. By mid-year, the Baltic Clean, Dirty, and Dry indices had fallen about 70%, 45%, and 30%, respectively from end of 2022 levels (Exhibit 3). Since then, increased product trade, Panama Canal congestion, and other factors have helped push those indices roughly 50%, 8%, and 120% higher than end of 1H23 levels. Following a collapse of nearly 75% in 2022, containership earnings remained relatively subdued during the first half of 2023, rising just +10% versus December 2022 levels (Exhibit 4). Since then, earnings have softened by nearly 40% as the market struggled to absorb the continued onslaught of new capacity.

Exhibit 3: Baltic freight indices
Since mid-year, Baltic Clean, Dirty, and Dry indices have risen roughly 50%, 8%, and 120%



Source: Bloomberg

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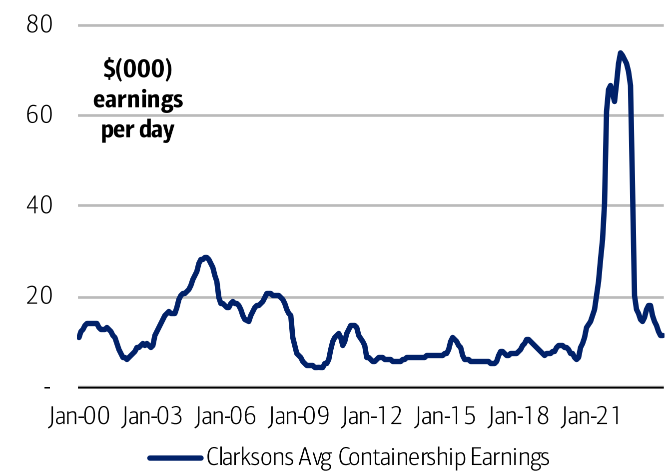
Exhibit 4: Containership earnings
Following a collapse of nearly 75% in 2022, containership earnings remained relatively subdued during the first half of 2023



Source: Clarksons

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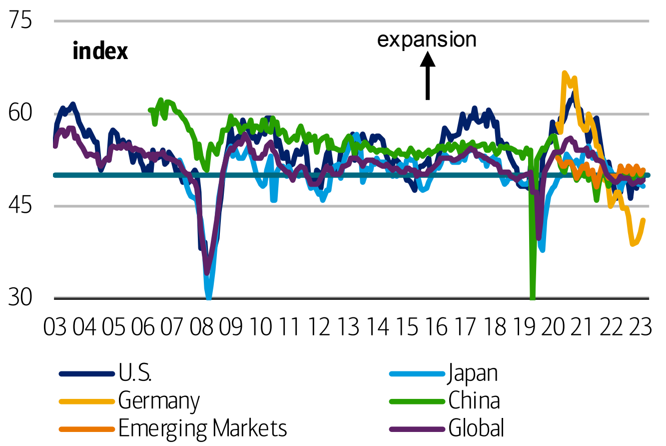
Industrial indicators point to softness, but trade has rebounded

Global economic activity hit a rough patch in the latter half of 2022, particularly on the manufacturing front (Exhibit 5) and has remained soft since then. In fact, some global manufacturing PMIs point to persistent contraction for the last 15 months, weighed down by sluggish activity in Europe. Even so, global seaborne trade started to grow again starting in February 2023, according to Clarksons data. Global oil, dry bulk, and other sectors like LPG and autos supported this trend early on, while container trade started to rise YoY in 2H23 (Exhibit 6).

Exhibit 5: Manufacturing PMIs

Global economic activity hit a rough patch in the latter half of 2022, particularly on the manufacturing front and has remained soft since then



Source: Bloomberg

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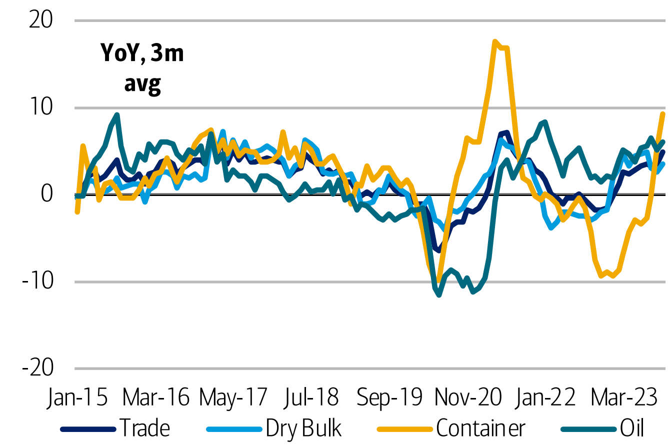
Exhibit 6: Global seaborne trade

Even so, global seaborne trade started to grow again starting in February 2023, according to Clarksons data



Source: Clarksons

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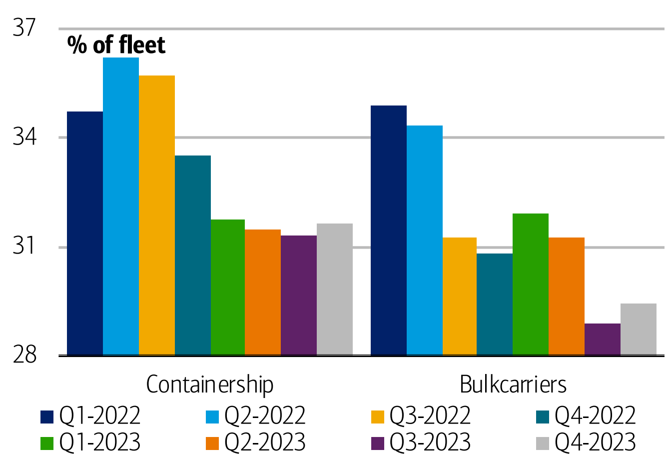
Port congestion has eased dramatically since the height of 2022...

Even though global trade has rebounded, many port congestion indicators continue to ease pointing to alleviating logistical headwinds. Following a steady drop from 2Q22 to 1Q23, global containership congestion has remained nearly flat, while bulkcarrier congestion stepped lower in 2H23 (Exhibit 7). Regionally, congestion appears more mixed, with NWE and North American indices showing steady relief since the end of 2023, while congestion has climbed in the Mediterranean and Black Sea (Exhibit 8).

Exhibit 7: Global port congestion index by vessel type (January-October)

Even as global trade has rebounded, port congestion indicators continue to point to alleviating logistical headwinds



Source: Clarksons, BofA Global Research

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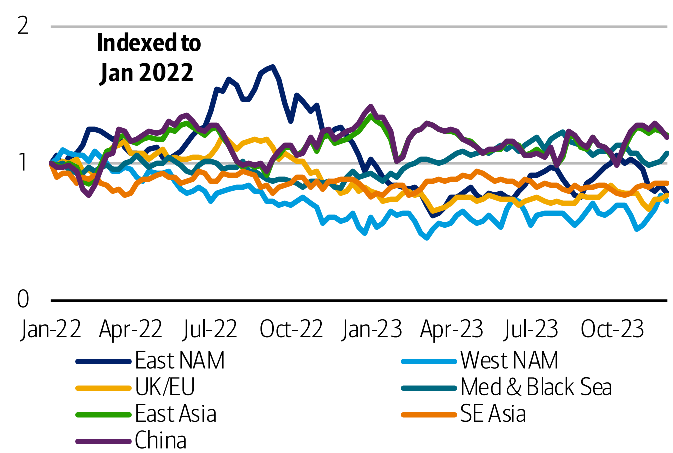
Exhibit 8: Port containership congestion by region

Regionally, congestion appears more mixed, with NWE and North American indices showing steady relief since the end of 2023, while congestion has climbed in the Mediterranean and Black Sea



Source: Clarksons

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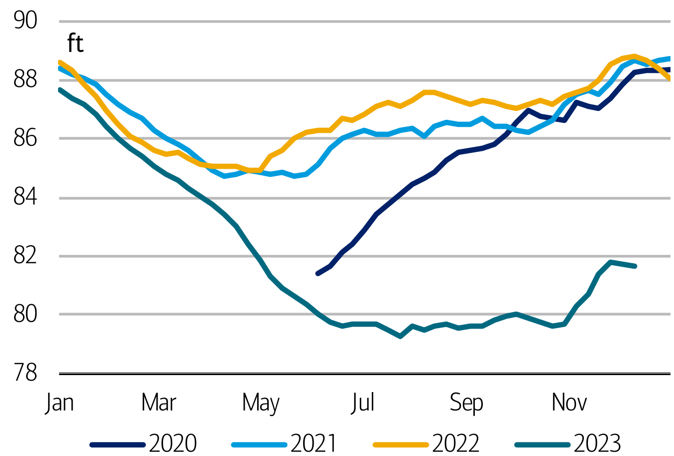
...but Panama Canal drought and Middle East security concerns...

While port congestion has eased and taken pressure off freight rates, key chokepoints like the Panama Canal and the Bab al-Mandab Strait have created their own challenges. Panama has suffered drought conditions in recent quarters, and this has caused water levels to drop at Gatun Lake (Exhibit 9), the key source of water supply for Panama Canal lock operations. Low water levels forced the Panama Canal Authority to curb the flow of traffic in recent months (Exhibit 10) and plans are in place to cut Panama Canal transits further in February of 2024. Reduced traffic at the Panama Canal forces cargos to travel longer routes to reach their destinations, which lengthens the global supply chain, tying up more ships to move the same amount of tonnage and raising freight costs in the process.

Exhibit 9: Panama Canal levels (Gatun Lake)
Panama has suffered drought conditions in recent quarters, and this has caused water levels to drop at Gatun Lake...



Source: Platts

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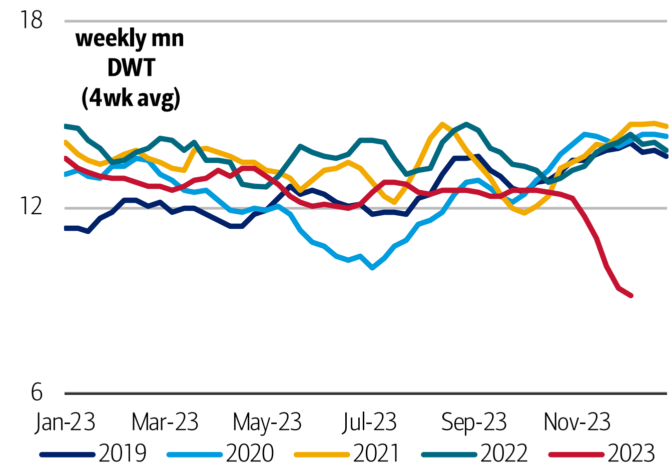
Exhibit 10: Panama Canal transits
...which forced the Panama Canal Authority to curb the flow of traffic in recent months and plans are in place to curb traffic further in 2024



Source: Clarksons

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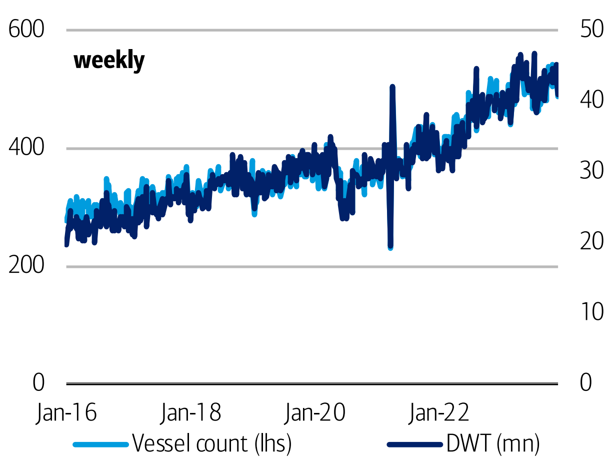
...are creating new logistical challenges for the shipping sector...

In addition to weather related logistical bottlenecks at the Panama Canal, the shipping industry also must contend with rising geopolitical tensions in the Middle East, which have led to numerous attacks on vessels transiting the Red Sea. The Suez Canal has become an increasingly important throughfare for the shipping industry since the pandemic (Exhibit 11), with transits rising by roughly 1/3rd in the past two years. Nearly every sector within the shipping industry has seen improvement in tonnage through the Suez Canal, but petroleum has been the clear leader since 2021 as more Russian volumes move to India, China, and elsewhere (Exhibit 12).

Exhibit 11: Suez Canal transits
The Suez Canal has become an increasingly important throughfare for the shipping industry since the pandemic



Source: Clarksons

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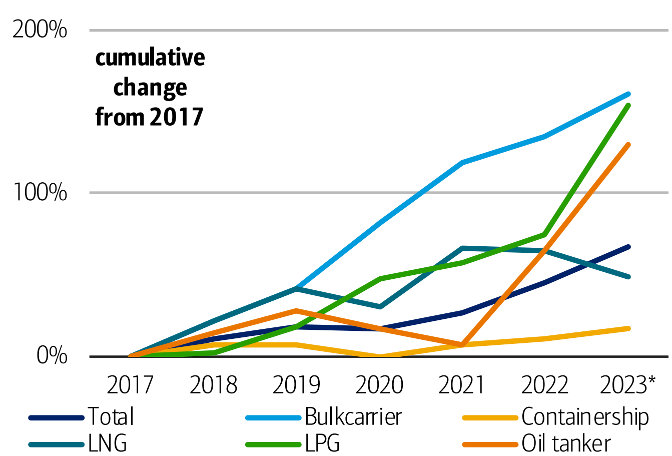
Exhibit 12: Suez Canal transits by ship type (DWT)
Nearly every sector within the shipping industry has seen improvement in tonnage through the Suez Canal in recent years



Source: Clarksons

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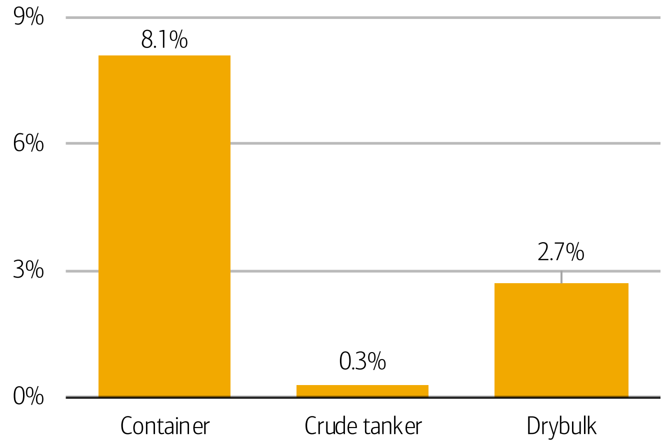
...with container freight most affected, and tankers and bulkers less so

Our Shipping Equity Research team pointed out (see [Another look at the tail risks of Suez and Panama Canal disruptions]) that Panama Canal and Suez Canal/Red Sea chokepoints will impact container trade most. Indeed, roughly 8% of global container volume traverses the Panama Canal (Exhibit 13) and 28% flows through the Suez (Exhibit 14), according to their estimates. A closure of these key throughfares would boost container demand by 1.5% and 7%, respectively. For tankers and bulkers, the closure of the Suez Canal would add roughly 30-40% to transit distances and boost fleet demand between 1-2%. Longer supply lines tie up more vessels, boost freight rates, widen origin-destination spreads, and lift bunker demand. Furthermore, a worsening supply chain may be bullish goods demand as companies over-order to ensure adequate inventories.

Exhibit 13: Shipping volumes using Panama Canal by segment
Disruptions at the Panama Canal and Suez Canal would mostly affect the container market...



Source: BofA Global Research estimates, Linerlytica

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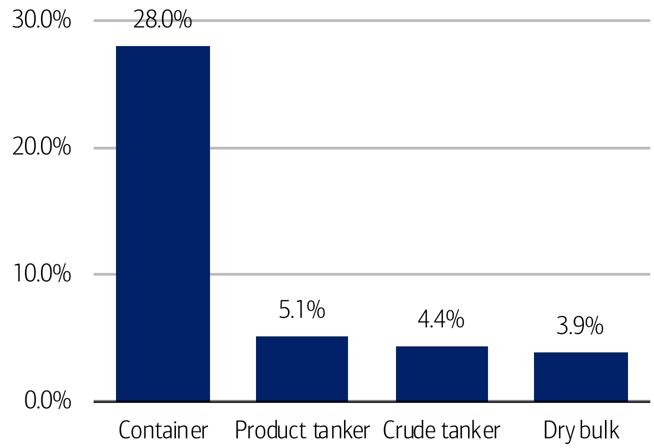
Exhibit 14: Shipping volumes using Suez/Red Sea by segment
...but tankers and bulkers would also be impacted to a smaller degree



Source: Clarksons, BofA Global Research estimates

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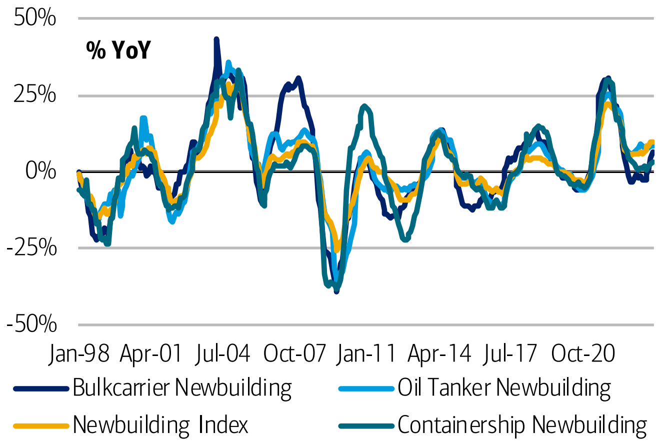
Newbuild prices continue to rise, supported by a full orderbook...
Historically, shipbuilding costs have ebbed and flowed in cycles, but costs have mostly risen since 2017 (Exhibit 15), with prices contracting slightly YoY in 2020 before rising in meteoric fashion during 2021-22. Costs for bulkcarriers fell modestly in late 2022/early 2023, but nearly all newbuild vessel costs are trending higher again in recent months. High shipbuilding costs are in part a reflection of general inflation but also of an orderbook that remains full for the next 3.6 years (Exhibit 16). Indeed, the orderbook forward cover ratio is the at the high end of the historical range witnessed in the past 10 years.

Exhibit 15: Newbuild cost indices
Historically, shipbuilding costs have ebbed and flowed in cycles, but costs have mostly risen since 2017



Source: Clarksons

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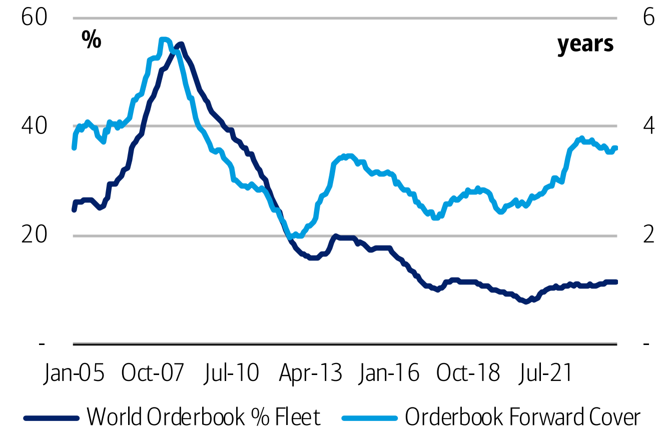
Exhibit 16: Global orderbook
High shipbuilding costs are in part a reflection of general inflation, but also of an orderbook that remains full for the next 3.6 years



Source: Clarksons

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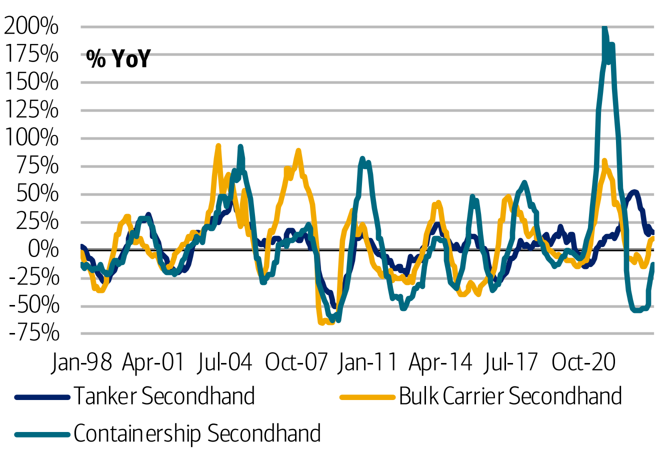
...which has supported secondhand prices, scrap values too

Secondhand vessel prices are exceptionally volatile and have mostly peaked and troughed at similar times across tankers, bulkers, and containerships (Exhibit 17). However, pandemic stimulated goods demand growth and logistical bottlenecks caused secondhand containership prices to soar in 2021-22 and the exhaustion of goods demand and alleviated supply chain constraints caused prices to collapse 50% in late 2022-23. Secondhand bulker prices followed suit, albeit to a lesser extreme. Meanwhile, secondhand tanker prices received an added lift in 2022-23 on tight tanker balances and demand from shipping companies trading Russian, Iranian, and Venezuelan petroleum. Solid secondhand prices limited scrappage and drove the average age of the tanker fleet higher in 2022-23 (Exhibit 18).

Exhibit 17: Secondhand vessel price changes
The YoY change in secondhand containership and bulker prices appears to have bottomed, while tanker secondhand prices appear to be slowing



Source: Clarksons

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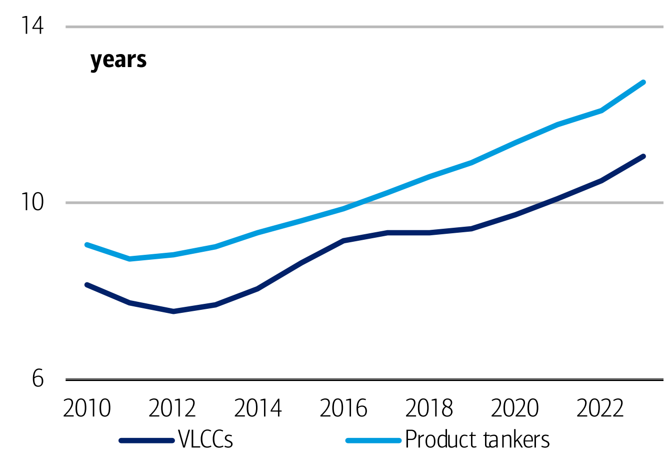
Exhibit 18: Average tanker fleet age
Solid secondhand prices limited scrappage and drove the average age of the tanker fleet higher in 2022-23



Source: Clarksons

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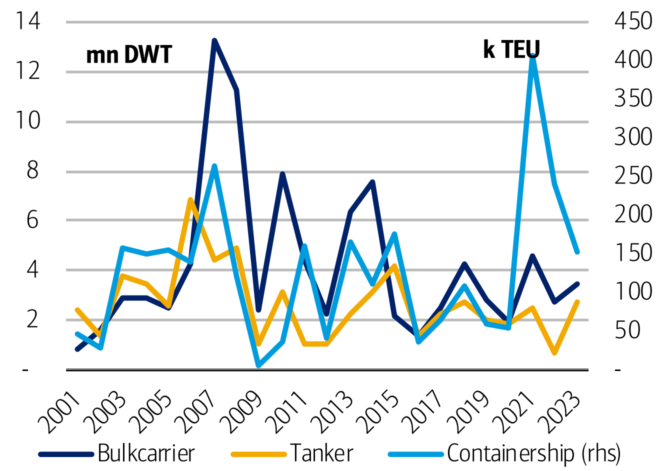
Bulker, tanker newbuild contracting rose, containerships orders slowed

Newbuild contracting recovered in 2023 for bulkers and tankers YoY, while containership contracting slowed YoY but remained historically high even though timecharter and spot tanker rates softened (Exhibit 19). The slowdown in containership contracting caused the orderbook to decline relative to global fleet size (%), while the pickup in on dirty and clean tanker newbuild demand caused those orderbooks to rise (Exhibit 20). Now, product tanker newbuild orders have reached a seven year high relative to the size of the clean tanker fleet. While dirty tanker orders have risen, the orderbook has only climbed to a one year high versus the size of the existing fleet.

Exhibit 19: Average monthly newbuild contracting

Newbuild contracting recovered in 2023 for bulkers and tankers YoY, while containership contracting slowed YoY but remained historically high



Source: Clarksons

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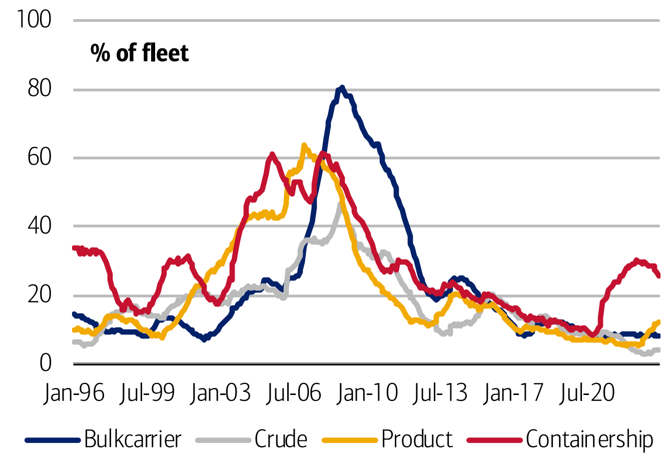
Exhibit 20: Newbuild order book by vessel type relative to fleet size

Slowing containership contracting caused the orderbook to decline relative to global fleet size (%), while the pickup in dirty and clean tanker newbuild demand caused those orderbooks to rise



Source: Clarksons

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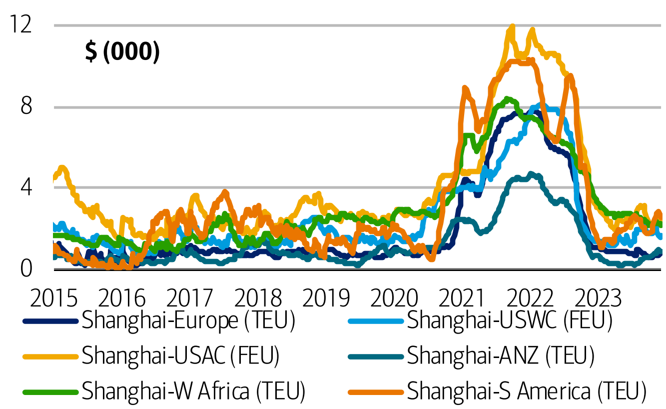
Containership timecharters and spot rates stayed soft in 2023...

After collapsing toward the end of 2022, performance of spot container rates has been mixed, with rates to Europe, the US Atlantic Coast, and West Africa declining by more than 20% YoY recently, while rates to the US West Coast and South America have risen over the same period (Exhibit 21). Containership timecharter rates have been softer all around, with feeders, intermediates, and neo-Panamax rates all down about 30% YoY as of early December (Exhibit 22).

Exhibit 21: Spot container freight rates

After collapsing toward the end of 2022, performance of spot container rates has been mixed



Source: Clarksons

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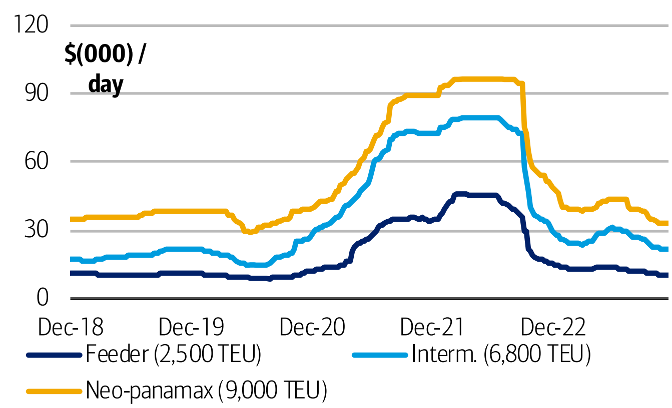
Exhibit 22: Containership 3-year timecharter rates

Containership timecharter rates are soft, with feeders, intermediates, and neo-Panamax rates down about 30% YoY as of early December



Source: Clarksons

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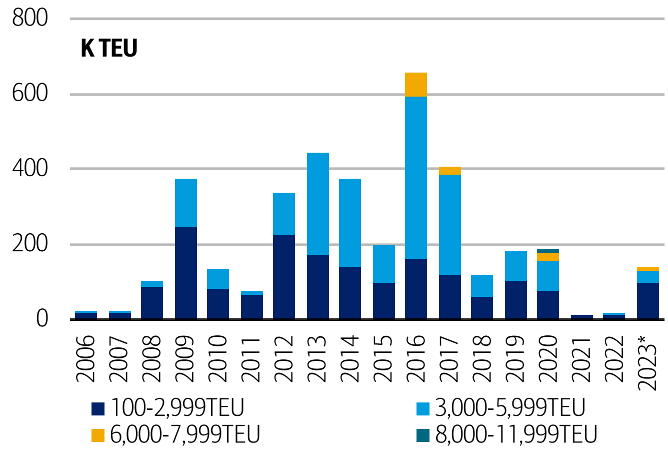
...and while containership scrappage has picked up this year...

The containership fleet saw exceptionally low scrappage during 2021-22 as freight rates soared but now that ship profitability has fallen to more normal levels, scrappage has picked up once again (Exhibit 23). Through November, feeder size vessels (100-2,999TEU) accounted for 72% of containership scrappage in 2023, with intermediates (3,000-5,999TEU) in a distant second (24% of scrappage). Despite the pick-up in demolition, total tonnage headed for scrap was lower than 2019 and 2020 as of early December. Meanwhile, the overall containership fleet has continued to rise, meaning that scrappage as a % of fleet size also remains low (Exhibit 24).

Exhibit 23: Containership scrappage by size
The containership fleet saw exceptionally low scrappage during 2021-22 as freight rates soared...



Note: 2023 data through November. **Source:** Clarksons

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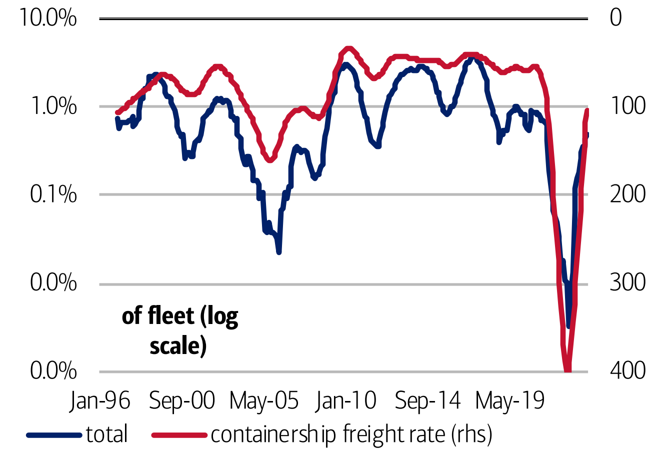
Exhibit 24: Containership freight index and est. scrap rates (12m avg)
... but now that ship profitability has fallen to more normal levels, scrappage has picked up once again



Source: Clarksons, BofA Global Research

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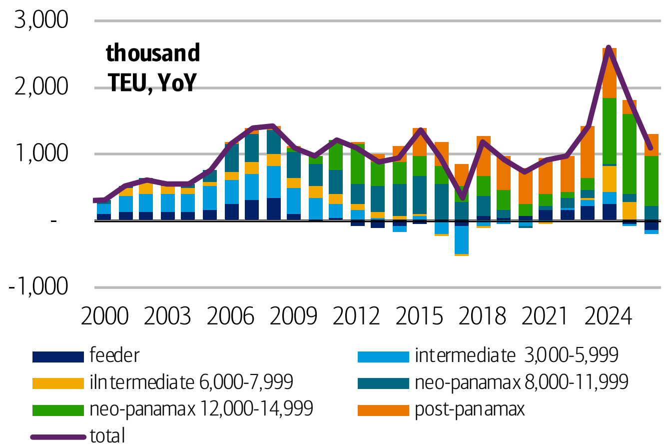
...fleet growth will soar in 2024/25, likely pressuring freight rates further

The flurry of containership orders placed during 2021-23 in response to strong freight rates will come to bear in 2024, as containership fleet growth nearly doubles from 1.4mn TEU YoY in 2023 to about 2.6mn TEU in 2024 (Exhibit 25). This rate of growth will expand the total containership fleet by about 10% YoY at a time when demand is struggling to recover from a post-pandemic hangover (Exhibit 26), with demand rising about 4.5% YoY. The gap between fleet growth and demand growth should lower fleet utilization overall in 2024 and more supply in 2025 will likely deliver a further blow to containership balances, assuming scrappage rates don't move meaningfully higher. With balances set to worsen steadily in 2024-25, we think container rates are likely to come under even more pressure in the coming quarters in order to encourage higher containership idling and scrappage.

Exhibit 25: Containership fleet growth by ship type
The pace of containership fleet growth will nearly double from 1.4mn TEU YoY in 2023 to about 2.6mn TEU in 2024...



Source: Clarksons, BofA Global Research estimates

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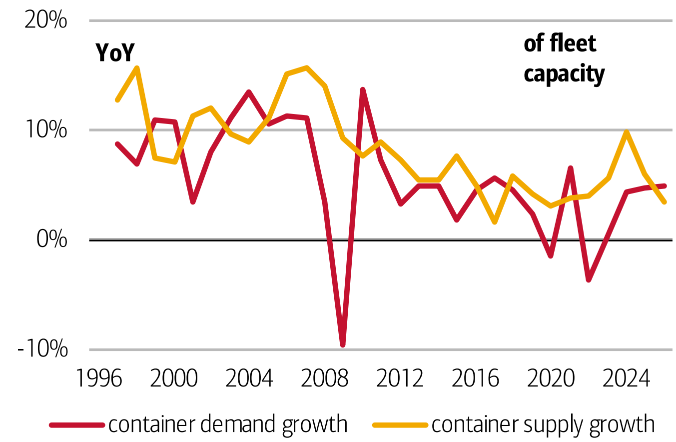
Exhibit 26: Global container S&D growth
...expanding the total containership fleet by about 10% YoY at a time when demand is struggling to recover from a post-pandemic hangover



Source: Clarksons, BofA Global Research estimates

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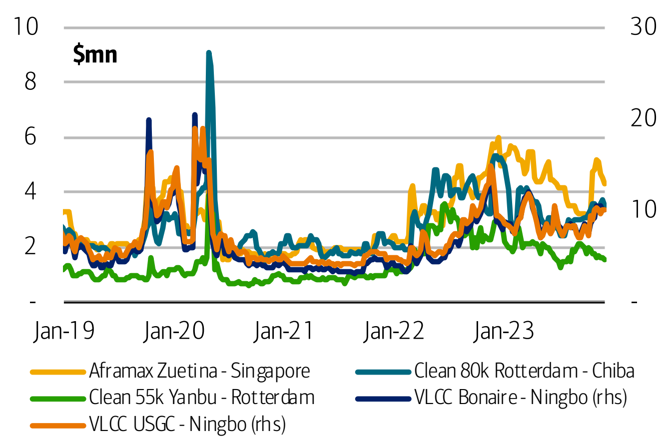
Tanker freight rates peaked in 2022 but still well supported...

Tightness in the tanker market has eased from the highs of 2022, but freight rates remain elevated compared to the lull of 2021 (Exhibit 27). The reshuffling of global crude oil and refined product flows following Russia's invasion of Ukraine put strain on the tanker market, pushing utilization rates higher in 2022 and 2023. Panama Canal congestion has also added to tanker tightness on the margin. Tanker timecharter rates remain elevated and are mostly trading within +/-5% of year-ago levels (Exhibit 28). Clean tanker timecharter rates (1yr) have eased since 1H23 but remain historically high.

Exhibit 27: Tanker spot rates
Tightness in the tanker market has eased from the highs of 2022, but freight rates remain elevated compared to the lull of 2021



Source: Clarksons

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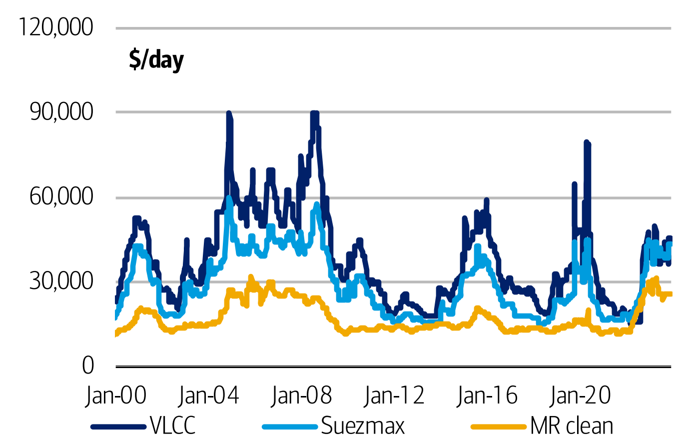
Exhibit 28: Tanker 1-year timecharter rates
Tanker timecharter rates remain elevated and are mostly trading within +/-5% of year-ago levels



Source: Clarksons

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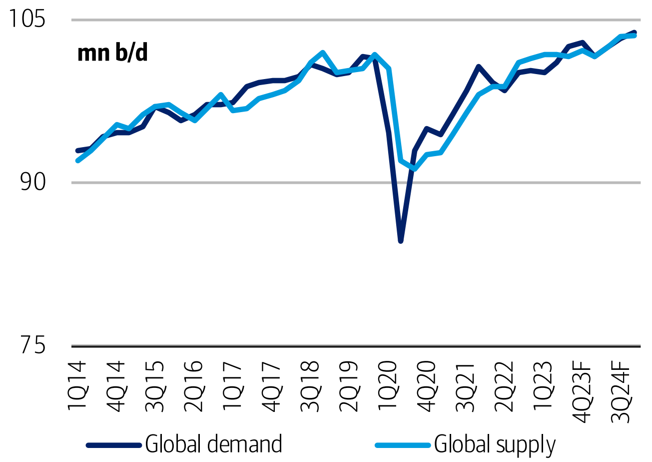
...due to longer supply lines, but demand growth should slow in 2024

The oil market's influence over the tanker market extends from crude oil trade to refined product movements. Oil supply is set to rise just 0.9% in 2024, after rising 1.8% in 2023 (Exhibit 29). Growth in non-OPEC exporting countries like the US, Canada, Brazil, and Guyana is likely to be partially offset by activity among OPEC+ countries. Specifically, we expect OPEC supply to drop by 300k b/d YoY in 2024 as cuts to GCC output offsets rising output from Iran, Venezuela, and other countries. Additionally, we expect production/exports from Russia will also fall in 2024, reflecting their commitment to the group. Refining capacity growth in countries like Nigeria, Angola, and Iraq during 2024-

25 will make them more self-sufficient from a fuel perspective. The result of these refinery startups will be lower crude oil exports and reduced refined product imports to these countries (Exhibit 30).

Exhibit 29: Global oil supply and demand
Oil supply growth is set to slow from 1.8% in 2023 to 0.9% in 2024, driven by the US, Canada, Brazil, and Guyana



Source: IEA, BofA Global Research estimates

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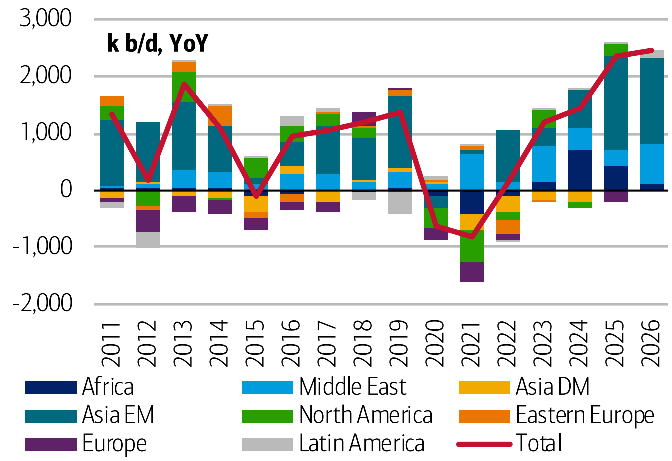
Exhibit 30: Global CDU capacity growth by region
Refinery startups should lower crude oil exports and reduce refined product imports for several OPEC countries



Source: Platts, BofA Global Research estimates

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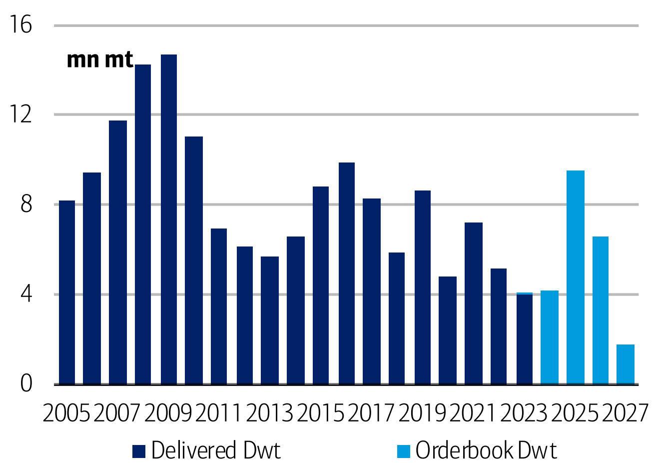
Clean tanker balances looser in 2024-25 on demand center refining growth

The clean tanker market is likely to see subdued deliveries in 2024, in-line with 2023 levels due to low contracting over the past three years. Tanker additions are likely to double YoY in 2025 as deliveries look set to reach the highest level since 2016 (Exhibit 31). While the timeline for completion on some 2024 capacity could slip into 2025, we think fleet growth should outpace demand growth, leading to lower utilization rates over the next two years (Exhibit 32). As a result, we lean bearish on clean tanker freight rates from here but acknowledge that the possibility of worsening geopolitical tensions threatens to send freight rates higher.

Exhibit 31: Clean product tanker deliveries (current orderbook)
Clean tanker additions are likely to double YoY in 2025 as deliveries look set to reach the highest level since 2016



Source: Clarksons

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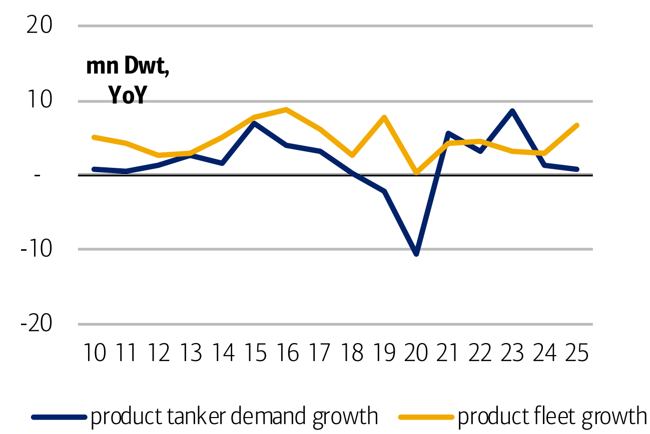
Exhibit 32: Wet clean (product) freight supply & demand growth - Total
We lean bearish on clean tanker freight rate into 2025 as fleet growth should outstrip demand



Source: Clarksons, BofA Global Research estimates

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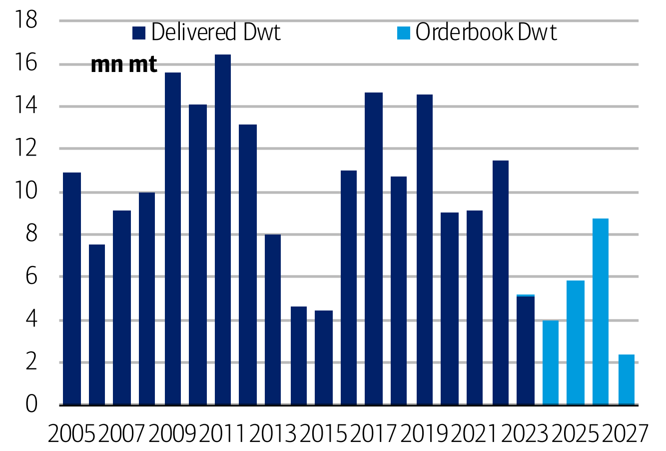
Dirty tanker balances to remain tight through 2025 on low deliveries

The increase in newbuild orders for the dirty tanker market is likely to arrive too late to alleviate tightness during the 2024-25 timeframe. In fact, deliveries in 2024 are expected to fall to just 4mn DWT, the lowest level in at least twenty years (Exhibit 33), before rising to about 6mn DWT in 2025, which is also historically low. Anemic deliveries are likely to lead to subdued fleet growth, and retirements could pick up regardless of economics due to the accelerated aging of the fleet in the past two years. In our base case, fleet growth and demand growth are likely to be comparable on a % basis, leading to persistent high fleet utilization over the next two years (Exhibit 34).

Exhibit 33: Dirty (crude) tanker deliveries (current orderbook)
The increase in newbuild orders for the dirty tanker market is likely to arrive too late to alleviate tightness that may materialize in the 2024-25 timeframe



Source: Clarksons

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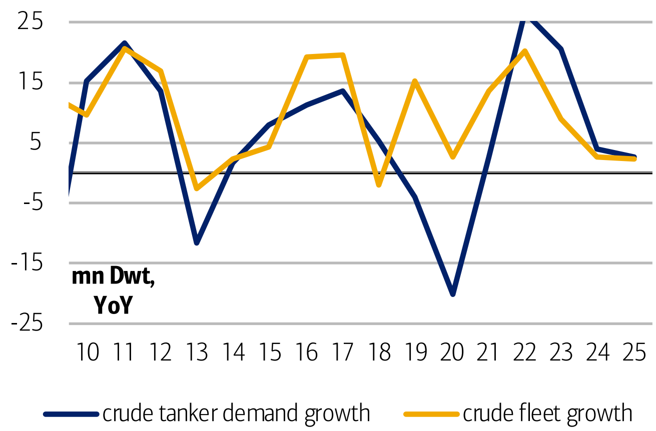
Exhibit 34: Wet dirty (crude) freight supply & demand growth - Total
Fleet growth and demand growth are likely to be comparable on a % basis, leading to persistent high fleet utilization over the next two years



Source: Clarksons, BofA Global Research estimates

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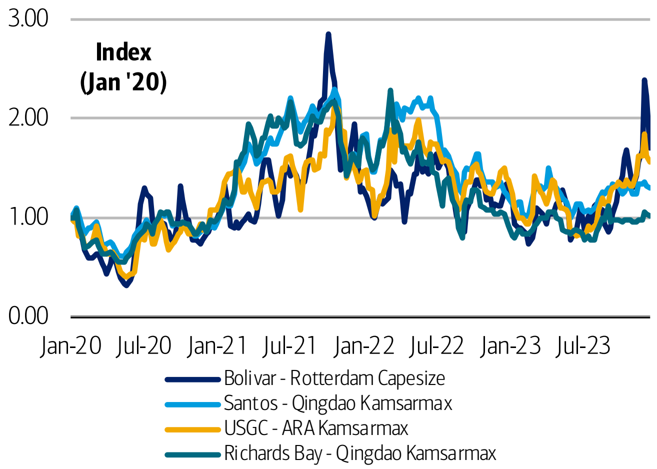
Bulker freight rates spiked since mid-year, especially in the Atlantic Basin

The dry bulk freight market peaked in late 2021 as port congestion and other logistical bottlenecks tied up a large portion of the fleet (Exhibit 35). After peaking, bulkcarrier freight rates declined steadily into mid-2023, and now an imbalance between supply and demand in the Atlantic Basin has caused certain routes to surge once again. Meanwhile, timecharter rates remain mostly subdued, save for Capesize vessels, which rallied in the past month and are now about 70% higher than year-ago levels (Exhibit 36).

Exhibit 35: Spot bulker freight rates
After a soft start to the year, an imbalance between supply and demand in the Atlantic Basin bulkers market caused certain routes to surge in 2H



Source: Clarksons

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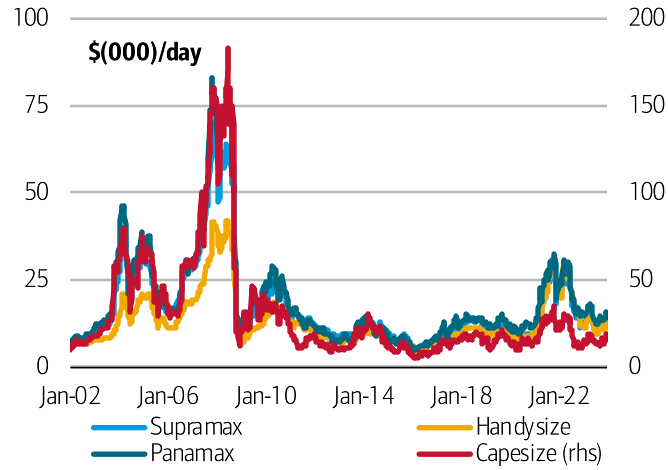
Exhibit 36: Bulker 1 year timecharter rates
Timecharter rates remain mostly subdued, save for Capesize vessels, which rallied in the past month and are now about 70% higher than year-ago levels



Source: Clarksons

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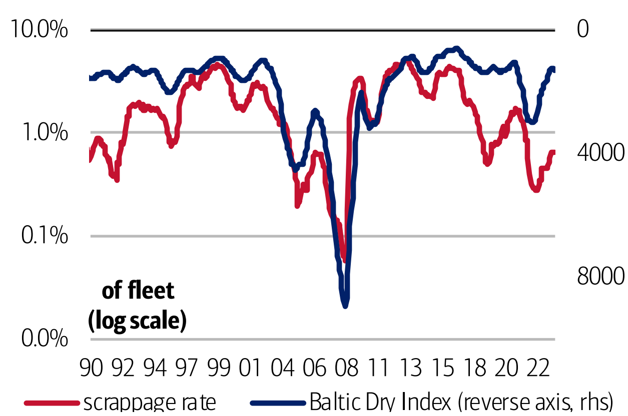
Bulker scrappage picked up while new orders slowed recently

Demolition activity in the bulkers market has mostly inversely tracked the Baltic Dry Index, which has softened since mid-2022, leading to an acceleration in scrappage activity (Exhibit 37). Scrap rates have doubled from just 0.3% of the fleet in mid-2022 to about 0.7% of the fleet in November, but scrap activity remains historically low. Meanwhile, the spike in the Baltic Capesize freight index has not yet resulted in a material increase in bulker contracting activity. In fact, as rates moved higher, contracting slowed to a trickle, though this dynamic may not persist for long (Exhibit 38).

Exhibit 37: Dry freight prices and scrap rates (12-month moving average)
Bulker demolition activity has mostly tracked the Baltic Dry Index, which has softened since mid-2022, leading to an acceleration in scrappage activity



Source: Clarksons, BofA Global Research estimates

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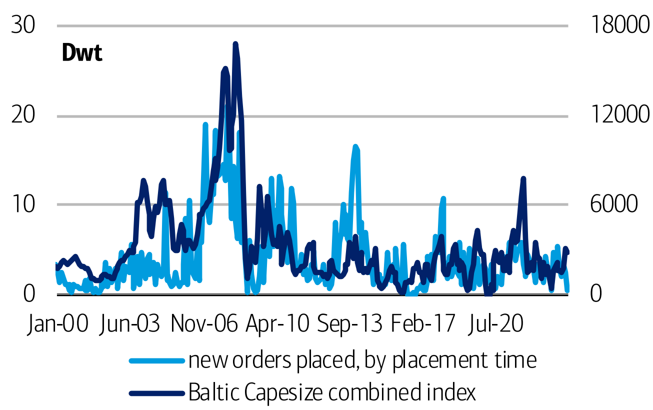
Exhibit 38: Dry bulk new orders and Baltic Capesize index
As freight rates moved higher, contracting lowed to a trickle, though this dynamic may not persist for long



Source: Clarksons

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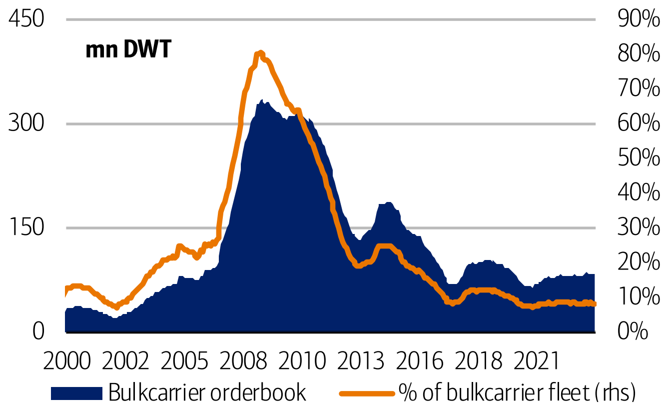
The orderbook remains light and deliveries should drop further…

Sluggish newbuild orders have kept the bulker orderbook nearly flat since 2021 near the lowest levels seen in the past 20 years. Consequently, the orderbook as a % of the total fleet has also stayed flat, falling only modestly YoY in December (Exhibit 39). A small orderbook and accelerating scrappage rates will likely lead to lower fleet additions in 2024 and 2025, posing a challenge for the bulker market should demand turn around or if geopolitical or weather-related chokepoint issues escalate further (Exhibit 40).

Exhibit 39: Bulkers newbuild orderbook

Sluggish newbuild orders have kept the bulker orderbook nearly flat since 2021 near the lowest levels seen in the past 20 years



Source: Clarksons

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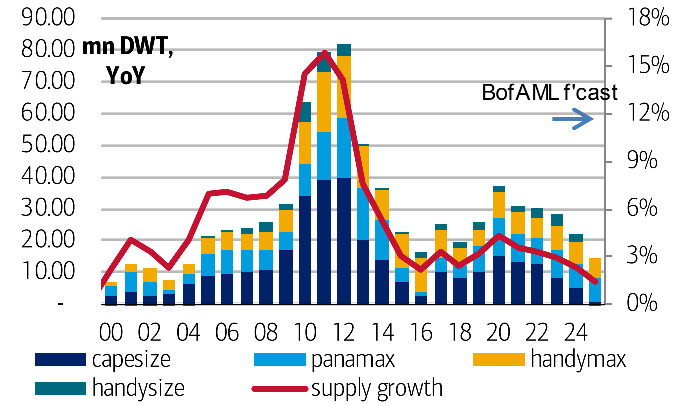
Exhibit 40: Dry bulk fleet additions

A small orderbook and accelerating scrappage rates will likely lead to lower fleet additions in 2024 and 2025



Source: Clarksons, BofA Global Research estimates

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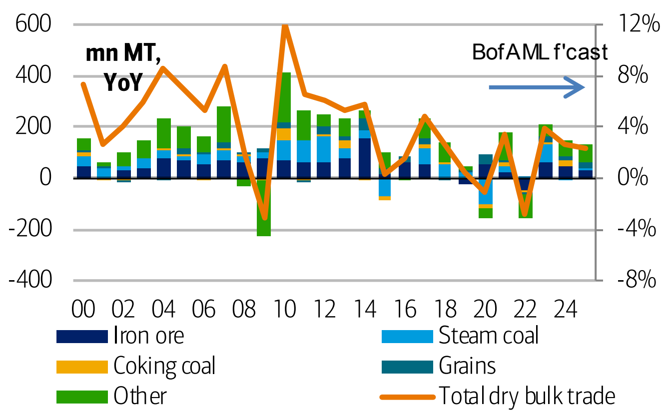
…which helps counteract slower trade growth, balancing the S&D

We see global bulk trade growth slowing from 3.9% in 2023 to just 2.6% in 2024, led by a slowdown in seaborne thermal coal exports YoY (Exhibit 41). Growth in iron ore, coking coal, grains, and other dry bulk will support higher bulker demand YoY. Bulker fleet growth is set to slow further over the same period, to just 2.2% in 2024 and 1.3% in 2025 (Exhibit 42). Slower fleet growth should help lift utilization rates in the coming years and support bulker freight rates in the process.

Exhibit 41: Dry bulk trade growth

We see global bulk trade growth slowing from 3.9% in 2023 to just 2.6% in 2024, led by a slowdown in seaborne thermal coal exports YoY…



Source: Clarksons, BofA Global Research estimates

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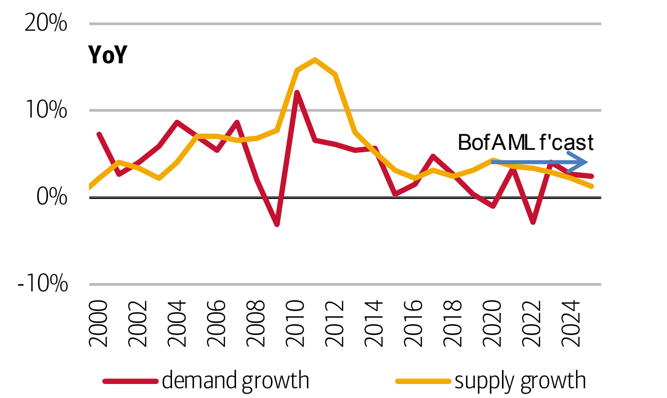
Exhibit 42: Global dry bulk S&D growth

…but even slower fleet growth should help lift utilization rates in the coming years and support bulker freight rates in the process



Source: Clarksons, BofA Global Research estimates

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Exhibit 43: Acronyms list

Acronyms	Definition
$/bbl	dollars per barrel
avg	average
b/d	barrels per day
bbl	barrel
Bcf/d	Billion cubic feet per day
bn	billion
boe	barrel of oil equivalent
Btu	British thermal unit
CB	central bank
CPI	consumer price index
ECB	European Central Bank
EM	European market
EUR	Euro
EV	electric vehicle
GWh	gigawatt hours
HDPE	High density polyethylene
IEA	International Energy Agency
JKM	Japan Korea Marker (Asia gas benchmark)
JPY	Japanese Yen
K b/d	Thousand barrels per day
LDPE	Low density polyethylene
LLDPE	Linear low density polyethylene
LNG	liquified natural gas
LPG	Liquified petroleum gas
MA	moving average
mcm	million cubic meters
ME	Middle East
Mfg	manufacturing
MMBtu	million British thermal unit
mn	million
Mn mt	Million metric tonnes
mt	metric ton
MWh	Megwatt hours
NBS	National Bureau of Statistics of China
NGL	Natural gas liquids
ngl	natural gas liquids
NWE	North west Europe
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
OPEC+	OPEC countries plus ten additional countries
Petchem	Petrochemical
PMI	purchasing managers index
SPR	Strategic Petroleum Reserve
TTF	Dutch Title Transfer Facility (European gas benchmark)
TWh	terrawatt hours
UNEP	United Nations Environment Programme
WTI	West Texas Intermediate
YoY	year over year
yr	year

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