POTEN & PARTNERS

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POTEN TANKER OPINION

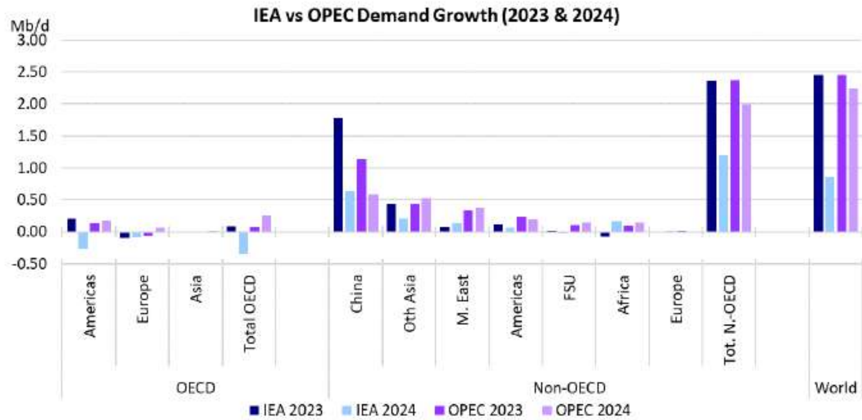
# Compare & Contrast

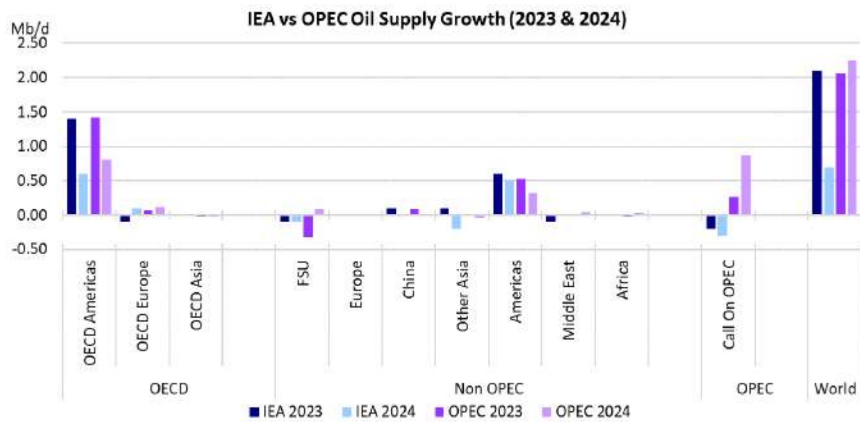
**Divergent views on future oil demand from IEA and OPEC**

Earlier this week, both OPEC and the IEA came out with their Monthly Oil Market Reports for November. It proved to be an interesting read. Both organizations have quite a different read on what is happening in 2023 as well as what the outlook is for 2024. In summary, the IEA is quite bearish, while OPEC, by contrast, is rather bullish. In their Feature Article, OPEC even spells it out: "Global oil market fundamentals remain strong *despite exaggerated negative sentiments*." Participants in the tanker market will be very interested in this debate because whether the IEA or the OPEC scenario plays out in 2024 could have significant implications for tanker freight rates.

Let's take a look at the IEA numbers first. For full year 2023, they expect global demand growth of 2.4 Mb/d, representing a healthy 2.4% growth. Demand in Asia Pacific grows by 2.1 Mb/d, or 89% of the total. China alone is expected to grow by 1.8 Mb/d this year. OECD demand growth is very small, with expansion in the Americas and declines in Europe and OECD Asia canceling each other out. The primary driver for oil demand growth in 2023 was jet fuel. A global travel boom, including a post-pandemic rebound in China let to 1.1 Mb/d in additional jet fuel demand (+17.4% growth YoY). Naphtha demand also grew rapidly, adding 356 Kb/d (+5.2%). Global gasoline demand grew by a modest 2.5%, while diesel demand was virtually flat, mainly due to declining consumption in Europe. All the additional crude oil demand for 2023 is being sourced from the non-OPEC producers in the Atlantic Basin. No need for additional OPEC+ supplies. The IEA expects that the call on OPEC will be reduced again in 2024. The shift from the Middle East OPEC to the Atlantic Basin for incremental barrels has provided a boost to tanker ton-mile demand in 2023.

For 2024, however, the IEA expects a major slowdown in oil demand growth. Next year, oil demand will expand by only 928 Kb/d (0.9%). Demand will decline in the OECD countries (-340 Kb/d), while non-OECD demand will expand by only 1.27 Mb/d (1 Mb/d less growth than in 2023). Growth in China and other Asia in particular will slow dramatically. Only Naphtha demand will continue to expand in 2024 according to the IEA. After the rapid growth in 2023, the IEA expects jet fuel demand to be flat in 2024, quite a turnaround! The IEA also expects a slowdown in the U.S. and continued stagnation in Europe. The silver lining for the tanker industry is that non-OPEC supply will continue to grow in North America, Brazil and Guyana and the additional demand in Asia will be sourced from the long-haul sources in the Atlantic Basin.




*Source: IEA, OPEC*

Is the IEA too pessimistic? The Organization of Petroleum Exporting Countries (OPEC) surely thinks so. OPEC's numbers for 2023 are not materially different from the IEA, except for China. While the IEA has China grow by 1.8 Mb/d in 2023, in the OPEC report China only contributes 1.1 Mb/d. Instead, OPEC has more demand growth in the Middle East and non-OECD Americas. However, OPEC's forecast for 2024 is very different from the IEA's projections. The main difference for next year is not China. The growth expectations for China are quite similar. The differences are everywhere else. OPEC expects that demand in the OECD will be resilient (growth of 260 Kb/d versus IEA's decline of 340 Kb/d). OPEC also has higher expectations for Other Asia, the Middle East and the FSU. All-in-all, OPEC forecasts global oil demand growth in 2024 to be 2.25 Mb/d, compared to a paltry 928 Kb/d expected by the IEA.

It is quite unusual that two major forecasting organizations have such a divergent view over the short term. There are a lot of variables, political (elections), economic (China) and geopolitical (Middle East) that can (and probably will) change both forecasts, and over time they will inevitably converge. Tanker owners will hope that OPEC is right, and that the IEA is indeed unduly pessimistic. While tanker balances are relatively tight and the outlook for rates are pretty bullish under either outlook, the OPEC forecast obviously provides more upside, especially for long-haul trades on VLCCs.