



# POTEN TANKER OPINION



## Looking Ahead

### Key tanker market developments for 2024

This is the second year of our forecasting series. Last week we discussed how we did with respect to our [2023 predictions](#). In this issue we will stick our neck out again and discuss several trends/developments that we expect for 2024.

#### 1. VLCC newbuilding orders will take off in 2024.

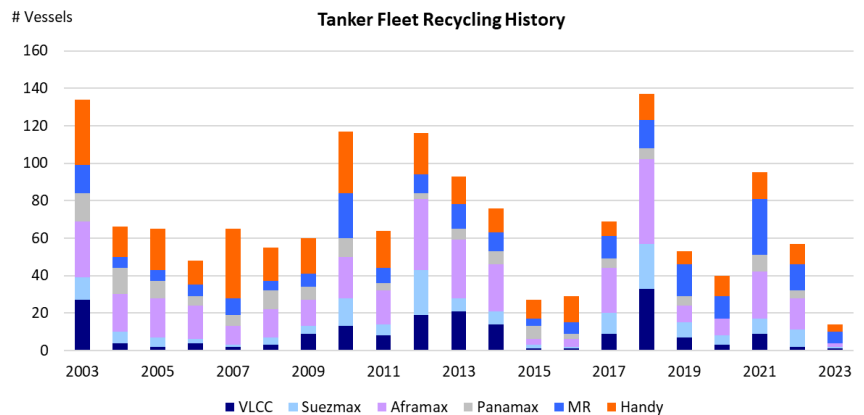
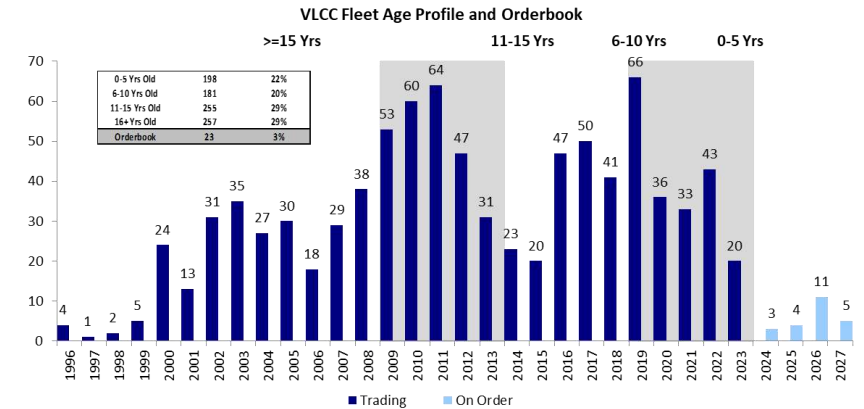
For several years now, the VLCC orderbook has been the lowest of all major tanker segments and near historical lows in terms of percentage of the existing fleet. As of January 1, 2024 the VLCC orderbook stood at 23 vessels or 2.6% of the trading fleet. This compares to 9.9% for Suezmaxes and 12.7% for Aframax/LR2s. There are a number of reasons for this: VLCC earnings collapsed after the initial pandemic/floating storage spike of 2020 and were dismal during 2021. Unlike the Suezmaxes and Aframax, VLCCs did not get a major boost from the trade flow dislocations after the Russian invasion of Ukraine in 2022. The current Red Sea crisis also has (so far) less impact on VLCCs than on the smaller tankers. However, we think the situation will change this year. VLCCs continue to be the most economical tanker to move crude oil over long distances and rates made a strong recovery in 2023. Fewer container ship and LNG carrier orders have opened up yard slots (albeit mostly in 2027 and beyond). However, most of all, major VLCC owners are looking at the extremely low orderbook and decided that the oil market needs more than a handful of VLCC deliveries every year. And once a few high-profile owners take the plunge, we expect that more will follow. We forecast that the VLCC orderbook will more than double in 2024.

#### 2. (Geo) Politics will dominate the tanker market in 2024.

Oil and tanker markets and geopolitical risks always seems to go hand in hand. They have been a major factor driving volatility in the tanker market since the Russian invasion of Ukraine. The conflict between Israel and Hamas has reignited tensions in the Middle East and the involvement of the Houthi rebels and their campaign to disrupt commercial shipping has further raised the risk of escalation in the region. We expect the tension to remain high. On top of these ongoing conflicts, the elections in Taiwan have raised tensions in the South China Sea. Several major democracies are going to the polls. General elections in the United States, India, Mexico and Venezuela all have the potential to change the (geo) political landscape.

#### 3. Tanker recycling will pick up in 2024 as some vessels of the "dark fleet" will start to be phased out

Tanker recycling was at a very low level in 2023. Data from Lloyd's List Intelligence shows that only 14 tankers (>10,000 dwt) were recycled last year, down from 57 in 2022 and 95 in



2021. This was the lowest level in at least 20 years. The tanker fleet is not young, as a matter of fact, it has been getting older. Since 2019, the average age of the tanker fleet has increased by four years (from 9.1 in Jan 2019 to 13.1 currently). With the limited deliveries scheduled over the next 2 years, the fleet will likely get even older. The main reason for the dearth in recycling is the premium valuations of older vessels. It was much more profitable for owners to sell vessels for further trading (mostly into the dark fleet) than to recycle them. We expect this to change in 2024. EU scrutiny on secondhand sales as part of a new set of sanctions on Russia could make owners more reluctant to sell ships to unknown buyers. However, more importantly, we think the dark fleet has reached a level where it is big enough to service the sanctioned trades. Furthermore, sanctions relief for Venezuela has reduced demand for these vessels and increased scrutiny of regulators will limit the trading options of these vessels. We expect tanker recycling in 2024 to reach at least 50 vessels.

#### 4. OPEC+ will reverse some of their voluntary production cuts

OPEC+ countries, led by Saudi Arabia and Russia have cut crude oil production in the second half of 2022 and again in 2023 in an effort to support prices in the face of increasing non-OPEC production and lackluster global demand growth. To avoid losing more market share, we expect that OPEC will reverse some of these cuts and start to increase production and exports again in the second half of 2024.

Overall, the year 2024 should be another strong year across the tanker universe.