McQuilling Services is pleased to announce the release of its 2018-2022 Tanker Market Outlook. This 200-page report provides a five-year spot and time charter equivalent (TCE) outlook for eight vessel classes across 23 benchmark tanker trades, plus four triangulated trades. Also included in the report is a robust five-year asset price outlook as well as a one and three-year time charter forecast through 2022. With 21 years of tanker rate forecasting expertise, McQuilling Services is a leader in the industry and continues to support a variety of stakeholders in the energy, maritime and financial services industries with its annual Tanker Market Outlook.

Methodology

The McQuilling Services rate forecast is based on the evaluation of historical and projected tonnage supply and demand fundamentals in the tanker market within the current and projected global economic environment, including oil supply and demand expectations. The forecasting process begins with the development of quantitative models, which are used to measure the correlation between historical freight rates and tanker supply and demand. This fundamental approach has proven to be reasonably predictive over the past 21 years. However, the forecasting process evolves past the modeling stage when the quantitative results are balanced with experiential knowledge and reasonable market assessments.

Key findings from 2017

In 2017, global ton-mile demand to transport crude and residual fuels increased by 5.4%, supported by a 4.9% increase in VLCCs (which accounted for 62% of the total demand for dirty tankers). Suezmax demand accounted for 24% of all DPP demand in 2017, 1% higher than 2016 due to higher crude exports from the Southern Europe and North Africa load region towards the Asian refinery complex.

In examining bilateral country trade flow data, we recorded a 2.1% rise in CPP ton-mile demand distributed across the four tanker segments we analyze. At 2.23 trillion ton-miles, CPP marine transportation requirements make up 17.3% of all tanker demand, the highest on record.

For 2017, we estimate that LR1 transport demand declined by 2.4%, following a 3.0% rise in 2016. With the estimated amount of transported tons remaining stable year-on-year at around 119 million, the reason for the ton-mile contraction can be explained by a reduction in mileage from 3,703 miles per voyage to 3,618.

Throughout 2017, we recorded 145 dirty vessels delivered to the fleet, an acceleration of deliveries when compared to the 101 ships observed in 2016. The Suezmax sector expanded significantly with a net fleet growth of 45 ships. On the clean side, we observed a similar trend with vessels additions rising from 55 in 2016 to 71 in 2017, additionally we also observed 60 MR chemical tankers join the fleet.

Newbuilding ordering activity rose 64% year-on-year in 2017 within the DPP sector amid much higher interest in the VLCC and Aframax segments. In 2016, 19 VLCCs were placed on order, which rose to 51 in 2017. Suezmax and Aframax orders also increased rising to 23 and 34 newbuilding contracts, respectively. Clean tanker ordering activity through 2017 represents a decline in comparison to the previous five years with 16 LR2s and five LR1s contracted. In the MR2 space, 67% of orders were chemical tankers, while in the handysize segment, owners increased this percentage to an absolute 100%, the first year this has occurred.

Looking forward

Global economic activity strengthened in 2017, following a year of the weakest growth since the financial crisis at 3.2% in 2016. According to the International Monetary Fund, global growth is on track to expand 3.7% in 2018, an upward revision from previous expectations.

Global crude demand is expected to rise by 840,000 b/d in 2018 amid significant growth in the East on the back of expanding refinery capacity. Global crude supply is projected to rise by 1.5 million b/d in 2018, despite
continued efforts from OPEC and non-OPEC countries to rebalance the markets and normalize inventory levels. Crude and residual fuel ton-mile demand is projected to increase by about 1% on an annual basis throughout the forecast period with a decelerating trend observed in the outer years of our forecast. We project 2018 demand growth of 1.8% supported by higher long-haul West to East crude flows, particularly out of the US Gulf, Brazil and Europe with pressure on demand continuing from reduced Middle East flows to the US.

We project a net fleet growth of 155 dirty ships through 2022 on the back of 591 deliveries and 436 deletions. Substantial growth of about 72 vessels is forecast for the VLCC fleet, while the Panamax fleet is on track to contract over our forecast period, as owners place emphasis on coated tankers of this size. On the clean side, we expect a net fleet growth of 56 vessels over our forecast period as the LR fleet expands, while the MR CPP fleet contracts; however, we note that the MR chemical fleet will continue to grow over this period.

On the basis of supply side pressure as well as demand indicators pointing to decelerating growth, we expect 2018 to be a weak year for rates of all dirty tanker classes with VLCCs averaging around US $21,700/day and Suezmaxes averaging US $12,100/day.

The story is quite different on the clean side of the market as supply fundamentals improve with growing demand. Spot market earnings in the LR2 and LR1 sectors are projected to average around US $14,600/day and US $13,100 in 2018, respectively. MR earnings on a round-trip basis are, in general, expected to rise in 2018 with TCEs averaging US $8,800/day; however, higher earnings of US $14,900/day can be attained on the basis of the Atlantic Basin triangulation. Potential for supply side pressure on clean freight rates becomes evident in 2020 based on analysis of our new long-term delivery forecast methodology.

Our 2018 price forecast for the 5-year old crude tanker sectors sees VLCC values averaging US $62.6 million, a 3.5% increase from the 2017 average price of US $60.5 million. Modern Suezmax tankers are projected to demand US $41.2 million in 2018; however, by 2022 we project the values of these tankers to reach US $51.2 million amid a pickup in earnings.

Clean tankers of this age group (5-year) are expected to see higher prices relative to their 2017 averages. For the LR2 space, we forecast a 2018 average price of US $37.1 million, a 5.0% increase from the average price recorded in 2017, while the LR1 sector is expected to see gains of 11% year-on-year to average US $31.2 million. The MR2 tanker is likely to appreciate 15% to US $27.1 million.

What's New in 2018?

In the 2018-2022 Tanker Market Outlook we have incorporated a variety of new features to provide our clients with a more robust view of global trade flows and major tanker trades:

- Enhanced vessel demand data for European land-locked countries with access to neighboring country ports, supporting our ability to exceed 95% coverage of global trade flows
- Refined our long-term vessel delivery forecast methodology utilizing regression analysis of historical fleet behavior to forecast future deliveries in conjunction with the current orderbook
- Adjusted our deletion profiles to factor in historical deletion patterns and apply corresponding ratios to each sector in order to gain a more accurate view of fleet evolution
- Developed a spot rate/TCE forecast for the Suezmax AG/Med route in response to the robust growth of Middle East crude flows into Europe
- Added two LR2 trades AG/UKC and Med/Japan as well as one LR1 trade South Korea/Singapore to expand our coverage of the clean sector and produce two triangulated voyages for the LR sectors

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